

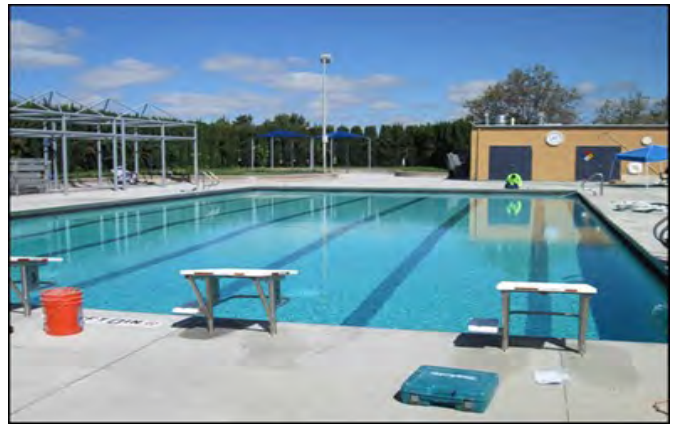


# Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2017



Future BART Station



Recreation Center Pool



Bob McGuire Park



Recreation Center Field

City of Milpitas  
CALIFORNIA

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**CITY OF MILPITAS, CALIFORNIA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2017**

**Prepared by**  
**THE DEPARTMENT OF FINANCIAL SERVICES**



## INTRODUCTORY SECTION



**CITY OF MILPITAS**  
**Comprehensive Annual Financial Report**  
**For the Year Ended June 30, 2017**

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# CITY OF MILPITAS

455 EAST CALAVERAS BOULEVARD, MILPITAS, CALIFORNIA 95035-5479 [www.ci.milpitas.ca.gov](http://www.ci.milpitas.ca.gov)

December 7, 2017

Honorable Mayor, Members of the City Council and City Manager:

Submitted herewith is the Comprehensive Annual Financial Report (CAFR) of the City of Milpitas (the City) for the fiscal year ended June 30, 2017. The report was prepared by the Finance Department of the City. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City. The data, as presented, is accurate in all material aspects; and is presented in a manner designed to fairly set forth the financial position and results of operations of the City as measured by the financial activity of its various funds. All disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included. The organization of the financial report follows the guidelines set forth by the Government Finance Officers' Association of the United States and Canada.

## THE REPORTING ENTITY AND ITS SERVICES

This report reflects the entity concept prescribed by generally accepted accounting principles. It combines the financial statements of the Milpitas Public Financing Authority (MPFA), Milpitas Housing Authority (Housing Authority), the Milpitas Municipal Financing Authority (MMFA) and the Terrace Gardens Inc. with those of the City to constitute a single reporting entity. The MPFA, Housing Authority, MMFA and Terrace Gardens are separate legal entities from the City and are controlled by the City. The MPFA, Housing Authority and MMFA have the same governing board as the City and the City also has control of the Terrace Gardens' governing board. However, the Terrace Gardens Inc. issues its own component unit financial statements.

Milpitas is a general law city of the State of California. The City was incorporated in 1954 and operates under a Council-Manager form of government. The City's political and legislative body is the City Council and is empowered by the general laws of the State of California to formulate citywide policy, including a fiscal program, City services, and appointment of the City Manager and Contract City Attorney. There are four City Council members who are elected at-large for staggered four-year terms, and the Mayor is selected every two years in a separate citywide election.

The City provides a full range of municipal services. These include: public safety; police, fire, community services public works; maintenance, planning, building and public facility inspection, engineering, water and sewer utilities, recreation services; redevelopment and economic development and general administrative services.

Citizens of the City desiring to assist the City Council in forming government policy may do so by serving on a City commission. The commissions act in an advisory capacity to the City Council. They are: Planning Commission; Community Advisory Commission; Library Advisory Commission; Parks, Recreation and Cultural Resources Commission; Telecommunications Commission; Arts Commission, Bicycle Pedestrian Advisory Commission; Emergency Preparedness Commission; Senior Advisory Commission; Recycling and Source Reduction Advisory Commission; Sister Cities Commission; Youth Advisory Commission; Economic Development Commission, Veterans Commission, and the Mobile Home Park Rental Review Board.

## ECONOMIC CONDITION, OUTLOOK AND ACTIVITY

Milpitas is situated within the Silicon Valley region, known throughout the world as the home of high technology, innovation and research. Milpitas, considered the “Crossroads of Silicon Valley,” with most of its 13.6 square miles of land situated between two major freeways, I-680 and I-880, has experienced tremendous growth since its incorporation in 1954. Over the past 40 years, the population growth has increased from 26,561 in 1970 to over 70,000 in 2010. The Bay Area has experienced significant employment growth from 1992 through 2000, adding more than 170,000 jobs. However, in 2001, Santa Clara County experienced its first negative job growth since 1992. Between 2001 and 2004, over 130,000 jobs were lost as a result of the economic recession. Between 2005 and 2007, the local economy began to recover slowly until 2008 when the economy went into global recession due to subprime mortgages, plummeting home sales and meltdown of the financial market. This region was severely impacted due to a concentration of the high-tech industry, heavy reliance on exports, decline of home prices, and reduced consumer spending. Milpitas was similarly impacted because of its location and comparable economic mix. Post-recession economic recovery in the last few years was moderate at best. However, in the last twelve months, the labor markets have improved such that this region has added more jobs than many other parts of California. Employment is nearing its pre-recession peak in the Silicon Valley. We are cautiously managing this economic road to recovery while cognizant of the need to remain in a state of fiscal readiness.

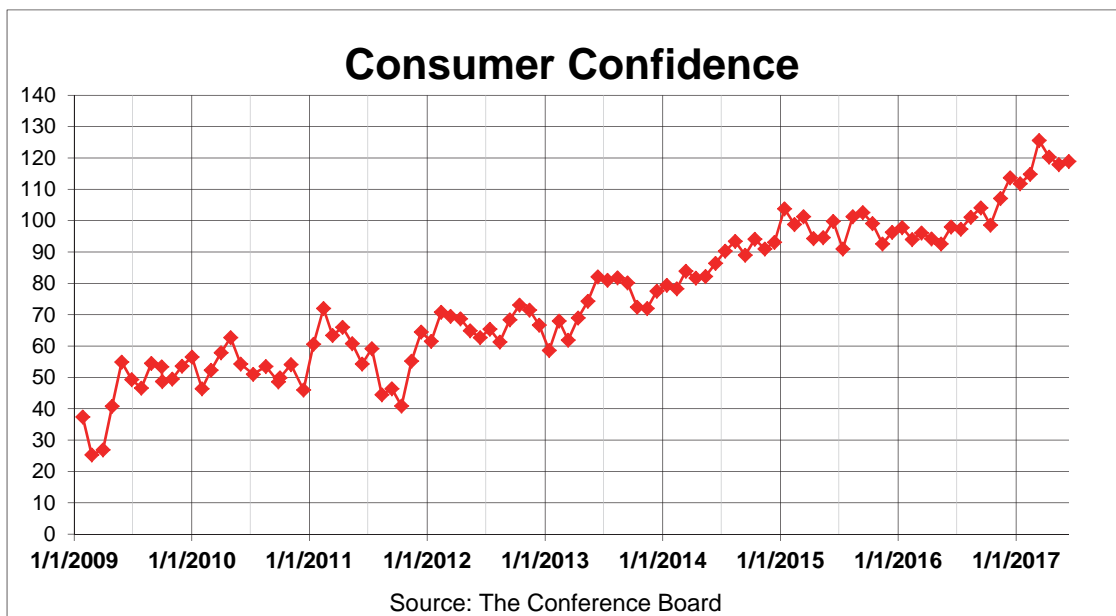
Growth in the South Bay housing market has also been an important contributor to the strength of the local economy. The lack of available homes continues to push home prices upward. Median home prices in certain parts of the Bay Area are outperforming the state and nation. Beyond the residential equation, much is happening in Milpitas from a perspective of private investment. The section below titled “Major Development Activities in the City” will discuss some of the development activities that are occurring in Milpitas.

There are approximately 1,293 acres or 2.6 square miles of land area in the City limits designated for various industrial uses; about 105 acres are vacant and available in parcels ranging in size from 3 acres to 35 acres. Included in this acreage total are nine industrial parks and approximately 100 manufacturing plants. An estimated 410 acres of land are dedicated to regional and community retail centers supporting 3.5 million square feet of commercial shops. The Great Mall of the Bay Area is the largest enclosed mall in Northern California, with approximately 1.1 million square feet of leasable space for retail and entertainment operations. Several local shopping centers serve regional needs for Asian-oriented retail and services.

The leading economic segments are apparel stores, restaurants, office equipment, electronic equipment, and auto sales. Top sales producing entities include manufacturing employers such as Cisco Systems, Inc., KLA-Tencor Corporation, Linear Technology Inc., and Flex. Other key retailers include South Bay Honda, Toyota/Scion, Marshall Stores, Safeway, Home Depot, Wal-Mart and Best Buy. Some of the most innovative companies, including View Glass and KLA-Tencor, make Milpitas their corporate headquarters. The three largest non-manufacturing employers in Milpitas are the Milpitas Unified School District, Kaiser Permanente and Wal-Mart.

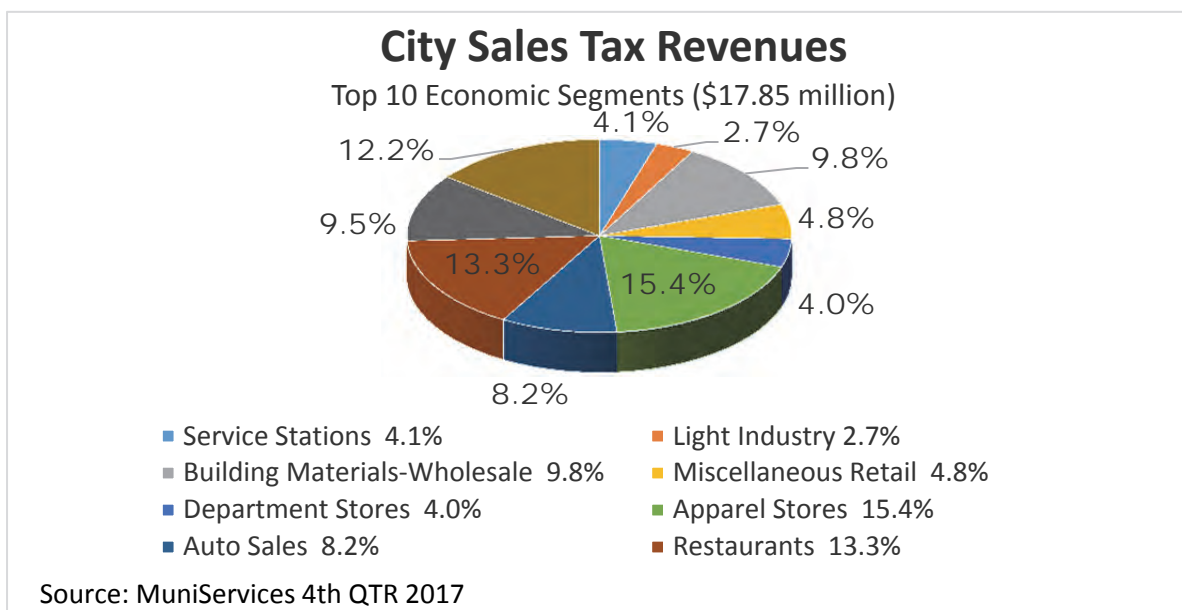
### Consumer Confidence Level

The latest consumer confidence survey report showed that the U.S. consumer sentiment in March 2017 reached an all-time high of 125.6 since the high of 103.8 in January 2015. Consumer confidence is an indicator designed to measure the degree of optimism that consumers feel about the overall state of the economy and their personal financial situation. Since consumer spending accounts for more than two-thirds of the U.S. Gross Domestic Product, the index is a good indicator that when consumers' confidence is high, consumers would likely make more purchases thus further boosting the economy.



### Top Ten Sales Tax Generators by Economic Segment

The chart below provides a snapshot of the City's sales tax revenue by economic segment. Total amount of sales tax revenue for the latest benchmark year was about \$21.27 million, with the top ten economic segments generating about \$17.85 million. The sales tax revenue generated from economic segments such as restaurants, office equipment, auto sales, and electronic equipment increased over a year ago, while the apparel stores, miscellaneous retail and light industry segments decreased.



### **Development Activities in the City**

*Midtown Specific Plan* – The vision for this area includes smart growth, high density mixed-use housing and retail within walking distance to light rail and BART to support the public investment in mass transit, transforming neighborhoods into an attractive and economically vital district with plazas and a network of pedestrian and bicycle trails, a vibrant streetscape along the north end of Main Street and a mixture of housing, shopping, employment, entertainment, and cultural and recreational opportunities. The implementation efforts began with several capital improvement projects such as the new Library, parking garage, Main Street and Abel Street infrastructure improvements. Other development activities undertaken by outside agencies include the construction of a County Health Center, a parking garage and a 103-unit Senior Housing apartment building. Major residential development realized in recent years include the Centria West project for 366 condominium dwelling units. Other development in process includes 200 housing units developed by Shea Homes. In the near term we also expect the introduction of an assisted living complex approximating 200 units in the first phases. The Planning department will be updating this specific plan in the next 12 to 24 months.

*Transit Area Specific Plan* – The City adopted a Transit Area Specific Plan in June 2008, and updated it in 2011, which provides for medium to high density development surrounding the future Montague/Capitol BART station and two VTA Light Rail Stations. The intent of the Plan is to foster economic development of the area, strengthen and expand retail uses to increase sales tax revenues, attract major retailers and provide housing and amenities such as parks, retail and restaurants. Currently there are about 3,800 housing units in the Transit Area that are under various stages of development.

*Residential Development* – An improving economy and high median home prices led to heightened interest in residential developments. Outside of the Midtown and Transit Area, there are several residential developments that are either under construction or completed and occupied. These projects include Cobblestone (27 Single Family Detached and 5 live/work units), Prynt (20 townhomes and 5 live/work units) and Waterstone (84 single family detached units). An adopted policy of the City Council no longer allows for rezoning of commercial and industrial lots to residential outside of the two specific plan areas.

*Non-residential Development* – FY2016-17 was also a busy year for commercial development and expansion. Flex, Cisco, KLA Tencor, Micron Technology, Inc., and SGI invested in millions in tenant improvements to their buildings. Property owners of the former LifeScan campus and Tasman TechPark invested in revamping their buildings and outdoor spaces in order to attract new tenants. Micron, a local company, has expanded at the Tasman Tech Park. As for hotel projects and other developments, Holiday Inn, Springhill Suites, Sprig Center @ McCarthy Ranch, and California Lottery Administrative offices are under construction.

### **CITY ANNUAL PERFORMANCE REPORT**

During fiscal year 2016-2017, City staff initiated and implemented various programs and projects that significantly improved services to the citizens and the community. These efforts are consistent with the City mission statement and the City Council's priorities and policy direction. A listing and brief description of these programs and projects follows:

#### **Fire**

- Responded to 5,000 emergency incidents with an average response time of 4:22 minutes.
- Presented fire prevention information at over 85 public events.
- Conducted 791 plan reviews, and performed 4,187 fire inspections.
- Certified 18 new "Strategic Actions For Emergencies" (SAFE) team members in various neighborhoods.

## **Police**

- Reduced residential burglaries by 39% in 2016.
- Reduced Uniform Crime Reporting crime categories by 8% in 2016.
- Increased arrest rate by 13% in 2016.
- Implemented body worn camera program to equip all patrol personnel.

## **Engineering**

- Completed construction of Sports Center Field improvements.
- Completed construction of Level2 Electric Car Charging Stations at City Parking Facilities.
- Completed resurfacing improvements to ten City owned bridges.
- Completed construction of levee repairs to Wrigley Creek.

## **Public Works Maintenance**

- Streamlined contracting process utilizing California Uniform Public Construction Cost Accounting Act (CUPCCAA).
- Responded to over 2,800 customer service requests.
- Completed backlog of sidewalk repairs, approximately 5,700 square feet.
- Centralized Customer Services Requests Citywide through the use of [Milpitasworks@ci.milpitas.ca.gov](mailto:Milpitasworks@ci.milpitas.ca.gov)

## **Planning/Neighborhood Services**

- Initiated two-year General Plan Update and the preparation of a Development Handbook for staff and public.
- Initiated the 2017-2022 Consolidated Plan
- Processed over 800 code enforcement service requests and code violations.
- Managed and administered 1,200 affordable Housing units for Milpitas Housing Authority.

## **Recreation**

- Provided two new non-traditional youth sports classes/camps such as futsal and indoor soccer.
- Increased participation in the summer recreation swim program by 4%.
- Offered California's first official GeoTour and brought over 5,000 people to Milpitas.
- Department was awarded the NFL Play 60 grant for \$7,500 from the National Football League (NFL), which included a wellness themed minicamp visit from San Francisco 49er players.

## **Building & Safety**

- Provided efficient permitting process for issuance of over 4,000 permits.
- Improved automation of inspection reporting and time tracking systems.
- ISO awarded the Building Department Class 1 on both personal and commercial lines activities.
- Introduced a new Building Department smartphone app.

## **Administration**

- Implemented City Council priorities for fiscal year 2016-17.
- Implemented financial strategies that ensure cost effective City service delivery while limiting department budget expenses.
- Continued to reorganize City departments and divisions to improve staff utilization, increase efficiency, accountability and at savings to the City.
- Completed Citywide Strategic Planning Process.

## **Economic Development**

- Facilitated development of seven projects.
- Received two awards from the most prestigious International Economic Development Organization (IDEC).
- Recruited three hotels including Virgin Hotel with a net gain of 545 new rooms.
- Reduced commercial vacancies.

## **City Attorney**

- Provided superior, affordable timely legal advice and service.
- Advised on and/or prepared documents for numerous complex Planning projects.
- Advised on various ordinances/updates of Municipal Code including CUPCCA implementation, Building & Fire Code updates, Cannabis ban, Water conservation updates, Outdoor Smoking ban, multiple Zoning code amendments, and Minimum Wage increase.
- Advised on/prepared documents for six potential ballot measures.

## **Human Resources**

- Updated City Performance Appraisal Form (PAF) to effectively evaluate performance of employees against the Milpitas Strategic Plan Values.
- Successfully completed a total of 44 recruitments on a timely basis for all departments.
- Negotiated successor MOU for four bargaining units (Pro Tech, Mid-Con, IAFF, POA).
- Provided ongoing professional trainings to employees i.e., Customer Service Training, professional workshops, legally mandated training, Liebert, Cassidy Whitmore workshops, wellness lunch and learns, and CalPERS webinar trainings.

## **Information Services**

- Completed replacement of IVR System.
- Completed deployment of Mobile Devices for Building and Public Works.
- Worked with Public Works and Police to deploy New MCT in Police Vehicles.
- Maintained network availability at 99.9% of the time.

## **Finance**

- Implemented and sent out the required Affordable Care Act (ACA) forms to employees.
- Received awards for “Distinguished Budget Presentation” and “Excellence in Financial Reporting”.
- Provided 99.9% accuracy on initial meter reads.
- Bid various frequently used commodities and services and created annualized contracts with the vendors to achieve savings and efficiency.



## ACCOUNTING SYSTEM AND BUDGETARY CONTROL

In developing and evaluating the City's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurances regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. The Finance Department staff remains committed to improving the City's accounting system; to maintain the City's internal accounting controls to adequately safeguard assets; and to provide reasonable assurances of proper recording of financial transactions. Budgetary control is directed by the City Council by resolution when the budget is adopted each year. Expenditures may not legally exceed appropriations at the department level by fund. The City utilizes the encumbrance system as a management control technique to assist in controlling expenditures. The City Manager has limited budget appropriation authority in an amount not to exceed 1% of the total General Fund budget, although the appropriations must be reported to the City Council on a periodic basis. Periodic reports of revenue, expense, and investment activity are prepared and distributed to the City Council and City departments to monitor spending in relation to the budget. At fiscal year-end, open encumbrances are reported as an assignment of the fund balance. The City's accounting records are organized and operated on a "fund" basis, which is the basic fiscal and accounting entity in governmental accounting. Each fund is classified by category and fund type:

### Category and Fund Type

Governmental Funds:	General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Funds
Proprietary Funds:	Enterprise Funds and Internal Service Fund
Fiduciary Funds:	Private-Purpose Trust Fund and Agency Funds

Governmental Funds: The basic financial statements necessary to fairly present the financial position and operating results from major governmental funds are the balance sheet, and the statement of revenues, expenditures and changes in fund balance. These funds are maintained using the modified accrual basis of accounting, which is more thoroughly explained in the Notes to the Financial Statements.

Proprietary Funds: Generally accepted accounting principles applicable to private commercial business are applicable to proprietary funds of a government agency. The basic financial statements required to present the financial position and operating results from major proprietary funds are the statement of net position, statement of revenues, expenses, and changes in fund net position, and the statement of cash flows. The accrual basis of accounting is utilized as explained in the Notes to the Financial Statements.

Fiduciary Funds: Fiduciary funds are used to account for assets held by a government agency acting as a trustee or agent for individuals, assessment districts, organizations, other governmental units or other funds of the same entity. These funds are also identified in this report as a Private-Purpose Trust Fund and Agency Funds. The full accrual basis of accounting is used as explained in the Notes to the Financial Statements. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

## FINANCIAL ANALYSIS

Generally Accepted Accounting Principles (GAAP) require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Milpitas' MD&A can be found immediately following the report of the independent auditors.

## INDEPENDENT AUDIT

Each year the City requires an independent annual audit of the City's financial records, the results of its operations, and cash flows. This report includes the opinion of the City's independent auditors, Maze & Associates, for the basic financial statements of the City. In addition, the document also contains the auditors' report on Internal Control over Financial Reporting and on compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.

## AWARDS

The Government Finance Officers' Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2016. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The City has received the GFOA Certificate of Achievement for twenty-seven of the last twenty-nine years (fiscal years ended 1988-2016). The 1992-93 report was not submitted to GFOA due to timing delays.

We believe our current report continues to conform to the Certificate program requirements. This report will be submitted to GFOA to determine its eligibility for another certificate.

## ACKNOWLEDGMENTS

I extend my appreciation to the entire staff in the Finance Department and other departments who assisted in the process of compiling the information for this report. In addition, I extend a special "thank you" to our external auditors who contributed long hours to make this document possible. Their efforts and continued dedication are greatly appreciated. I sincerely thank the Mayor, members of the City Council and City Manager, for their support, interest, and integrity in directing the financial affairs of the City in a responsible, professional, and progressive manner.

Respectfully submitted,



Will Fuentes  
Director of Financial Services

## **DIRECTORY OF OFFICIALS**

June 30, 2017

### **City Council**

Mayor	Rich Tran
Vice-Mayor	Marsha Grilli
Councilmember	Garry Barbadillo
Councilmember	Bob Nuñez
Councilmember	Anthony Phan

**Interim City Manager / Acting Police Chief**  
Steve Pangelinan

**City Attorney**  
Christopher Diaz

**Director of Financial Services**  
Will Fuentes

**Fire Chief**  
Robert Mihovich

**City Clerk**  
Mary Lavelle

**Public Works Director**  
Nina Hawk

**Chief Information Officer**  
Mike Luu

**Human Resources Director**  
Tina Murphy

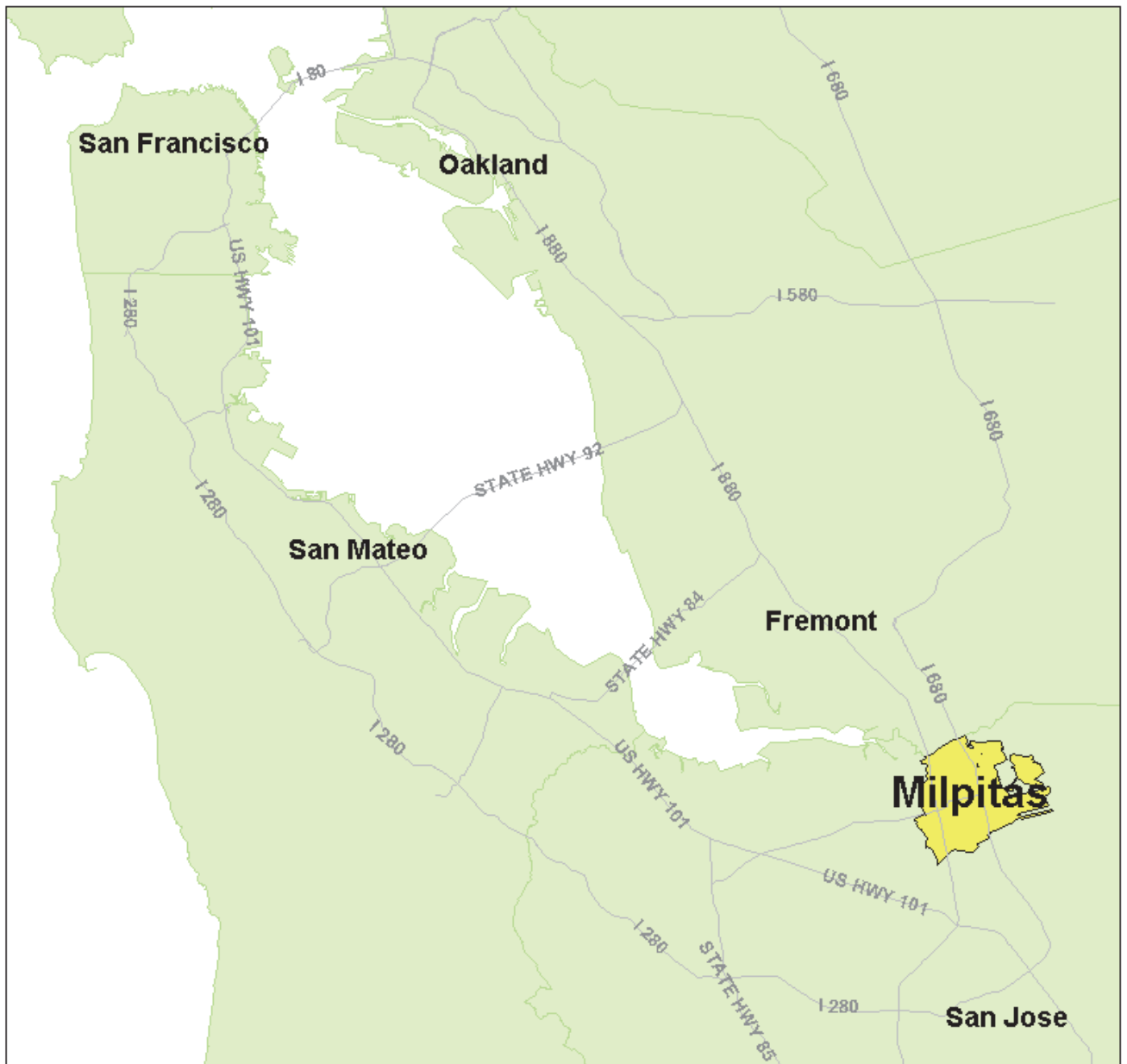
**Interim Director of Engineering/City Engineer**  
Greg Chung

**Planning & Neighborhood Services Director**  
Bradley Misner

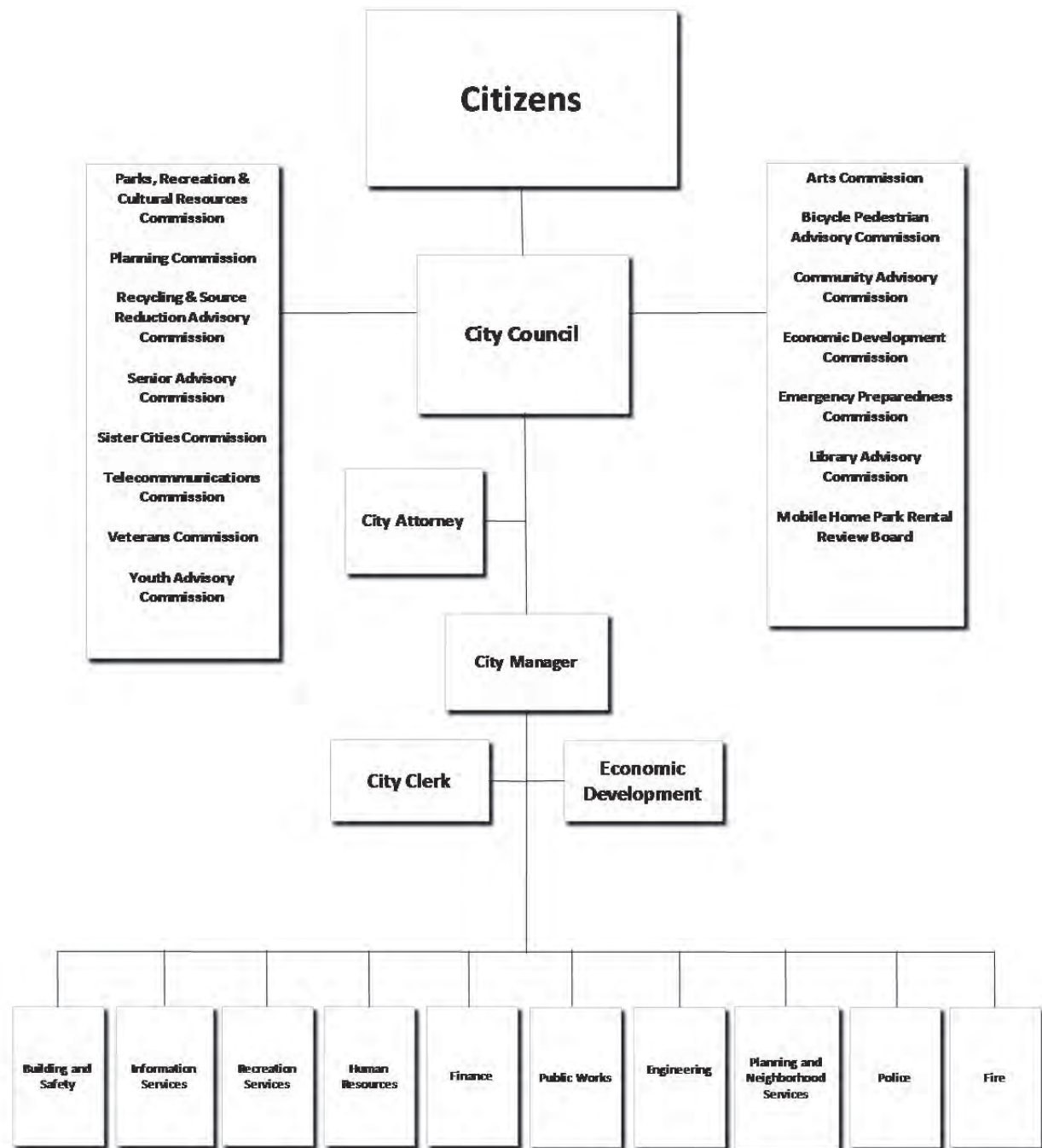
**Building and Safety Director**  
Keyvan Irannejad

**Economic Development Director**  
Edesa Bitbadal

**Director of Recreation and Community Services**  
Renee Lorentzen



The City of Milpitas is located near the southern tip of San Francisco Bay, forty-five miles south of San Francisco. Milpitas is often called the “Crossroads of Silicon Valley” with most of its 13.66 square miles of land situated between two major freeways (I-880 and I-680), State Route 237, and a county expressway. The light rail line opened for service in 2004 and an extension of BART, with a major multi-modal station, is in the planning stages.





Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

**City of Milpitas  
California**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2016**

Executive Director/CEO

## FINANCIAL SECTION





## INDEPENDENT AUDITOR'S REPORT

To the Honorable Members of the City Council  
City of Milpitas, California

### ***Report on Financial Statements***

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Milpitas, California, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the discretely presented component unit financial statements of Terrace Gardens, Inc. as of and for the year ended December 31, 2016, which represent 1.35%, 1.74%, and 1.04% of the assets, net position, and revenues, respectively, of the primary government. These component unit financial statements were audited by other auditors, whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for this entity, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## ***Opinions***

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and discretely presented component unit of the City as of June 30, 2017, and the respective changes in the financial position and, where applicable, cash flows thereof and the respective budgetary comparisons listed in the Table of Contents as part of the basic financial statements for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and other Required Supplementary Information as listed in the Table of Contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements as a whole. The Introductory Section, Supplemental Information, and Statistical Section as listed in the Table of Contents are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The Supplemental Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplemental Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Introductory and Statistical Sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2017, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Pleasant Hill, California  
December 7, 2017

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following discussion provides readers of the City of Milpitas' financial statements a narrative overview and analysis of the financial activities of the City of Milpitas for the fiscal year ended June 30, 2017. Please read this document in conjunction with the accompanying Transmittal Letter and Basic Financial Statements.

### **FISCAL YEAR 2017 FINANCIAL HIGHLIGHTS**

The City's revenues in fiscal year 2017 reflect continued economic recovery in the South Bay region, primarily driven by improved employment and rebound of the housing market. The unemployment rate for the San Jose-Sunnyvale-Santa Clara metropolitan area in June 2017 was at 3.6%, a slight decline from last year's rate of 4.1%. Property tax revenue has shown substantial recovery due to double digit increases in median home prices. Foreclosures and property tax appeals have been trending downward. Transient Occupancy Tax revenues were better than last fiscal year, reflecting a steadily improving economy.

Fiscal 2017 financial highlights include the following:

#### *City-wide:*

- The City's total net position was \$574.2 million at June 30, 2017. Of this total, \$390.7 million were Governmental and \$183.5 million were Business-type Activities.
- City-wide revenues include program revenues of \$107.8 million and, general revenues and transfers of \$79.7 million, totaling \$187.5 million, an increase of \$22.7 million from the prior year's total of \$164.8 million.
- Total City-wide expenses were \$136.6 million, an increase of \$18.6 million from the prior year's \$118 million.

#### *Fund Level:*

- Governmental Fund balances were \$211.8 million, an increase of \$27.9 million from fiscal year 2016.
- Governmental Fund revenues were \$126.4 million in fiscal year 2017, up \$2.0 million from the prior year's \$124.4 million.
- Governmental Fund expenditures were \$109.4 million in fiscal year 2017, an increase of \$8.8 million from fiscal 2016's level of \$100.6 million.
- General Fund revenues of \$92.0 million represented an increase of \$6.3 million from fiscal year 2016's revenues of \$85.7 million.
- Net other financing uses of the General Fund were \$6.7 million in fiscal year 2017 while fiscal 2016 had a total other financing uses of \$8.3 million.
- General Fund balance of \$72.7 million at the fiscal year 2017 year-end was \$18.4 million more than the fund balance at fiscal year 2016 year-end.

### **OVERVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT**

This Comprehensive Annual Financial Report is in eight parts:

- 1) Introductory section, which includes the Transmittal Letter and general information,
- 2) Management's Discussion and Analysis (this part),
- 3) The Basic Financial Statements, which include the Government-wide and the Fund financial statements, along with the Notes to these financial statements,
- 4) Required Supplementary Information,
- 5) Supplementary Information,
- 6) Combining statements for Non-major Governmental Funds and Fiduciary Funds,
- 7) Statistical information,
- 8) Other audit report.

## **The Basic Financial Statements**

The Basic Financial Statements comprise the City-wide Financial Statements and the Fund Financial Statements. These two sets of financial statements provide two different views of the City's financial activities and financial position—long-term and short-term.

The City-wide Financial Statements provide a longer-term view of the City's activities as a whole, and comprise the Statement of Net Position and the Statement of Activities. The Statement of Net Position provides information about the financial position of the City as a whole, including all its capital assets and long-term liabilities on the full accrual basis, similar to that used by corporations. The Statement of Activities provides information about all the City's revenues and all its expenses, also on the full accrual basis, with the emphasis on measuring net revenues or expenses of each of the City's programs. The Statement of Activities explains in detail the change in net position for the year.

The Fund Financial Statements report the City's operations in more detail than the City-wide statements and focus primarily on the short-term activities of the City's General Fund and other Major Funds. The Fund Financial Statements measure only current revenues and expenditures, current assets, liabilities, deferred inflows/outflows of resources and fund balances, but exclude capital assets, long-term debt and other long-term amounts.

Major Funds account for the major financial activities of the City and are presented individually, while the activities of Non-major funds are presented in summary, with subordinate schedules presenting the detail for each of these Non-major funds. Major Funds are explained below.

The City is the Successor Agency of the Milpitas Redevelopment Agency. It holds funds to make payments according to the enforceable obligations schedules and eventually dispose of other assets and properties of the former Redevelopment Agency for the benefits of the taxing agencies. The City is also the depository agent for Local Improvement Districts and certain other entities. The fiduciary statements provide information about the cash balances and activities of the Successor Agency, Local Improvement Districts and other entities. These statements are separate from the City's financial statements and their balances are excluded from the City's fund balances.

Together, all these statements are called the Basic Financial Statements.

### ***The City-wide Financial Statements***

All of the City's basic services are considered to be governmental activities, including general government, building safety and inspection, public safety, public works maintenance, recreation, public improvements, planning and zoning, and general administration services. These services are supported by general City revenues such as taxes, and by specific program revenues such as fees. The basic financial statements can be found in pages 19-36 of this report.

All of the City's enterprise activities, including water and sewer are also reported in the basic financial statements. Unlike governmental services, these activities are supported by charges paid by users based on the amount of their service consumption.

The City's governmental activities include the activities of four other separate legal entities, the Milpitas Public Financing Authority (MPFA), the Milpitas Housing Authority (Housing Authority), the Milpitas Municipal Financing Authority (MMFA) and Terrace Gardens, Inc., because the City is either financially accountable for these entities or has control of the governing board of these entities.

Citywide financial statements are prepared on the accrual basis, which means they measure the flow of all economic resources of the City as a whole.

### ***Fund Financial Statements***

Governmental Fund financial statements are prepared on the modified accrual basis, which means they measure only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are presented only in the citywide financial statements.

Enterprise and internal service fund financial statements are prepared on the full accrual basis and include all these funds' assets and liabilities, both current and long-term.

The Fund financial statements provide detailed information about each of the City's most significant funds, called Major Funds. Each Major Fund is presented individually, with all Non-major Funds summarized and presented only in a single column. Subordinate schedules present the detail of these Non-major funds. Major Funds present the major activities of the City for the year. The General Fund is always a Major Fund, but other funds may change from year to year as a result of changes in the pattern of the City's activities.

The City has four other Major Governmental Funds in fiscal year 2017 in addition to the General Fund. These are the Housing Authority Fund, the Street Improvement Fund, the Transit Area Impact Fee Fund and the General Government Capital Projects Fund, each of which is discussed in detail below.

Both of the City's Enterprise Funds are reported as Major Funds.

Comparisons of Budget and Actual financial information are presented only for the General Fund and other Major governmental funds that are Special Revenue Funds. The City has one major Special Revenue Fund, the Housing Authority Fund.

### ***Fiduciary Statements***

The City is the Successor Agency of the former Redevelopment Agency and the agent for certain local improvement districts ("Districts"). The City holds property tax revenue distributed from the Redevelopment Property Tax Trust Fund ("RPTTF") to pay outstanding recognized obligations for the Successor Agency. The City also holds amounts collected from property owners which await transfer to the Districts' bond trustees. These activities are excluded from the City's other financial statements because the City cannot use these assets to finance its own operations. The City's fiduciary activities are reported in the separate Statement of Fiduciary Net Position, Statement of Changes in Fiduciary Net Position and the Agency Funds Statement of Changes in Assets and Liabilities.

## CITYWIDE FINANCIAL ANALYSIS

This analysis focuses on the net position and changes in net position of the City as a whole. Comparisons of the current year's net position and activities with fiscal year 2016 are presented in table form. Any significant changes are analyzed and discussed.

### *Governmental Activities*

Table 1  
Governmental Net Position at June 30  
(in Millions)

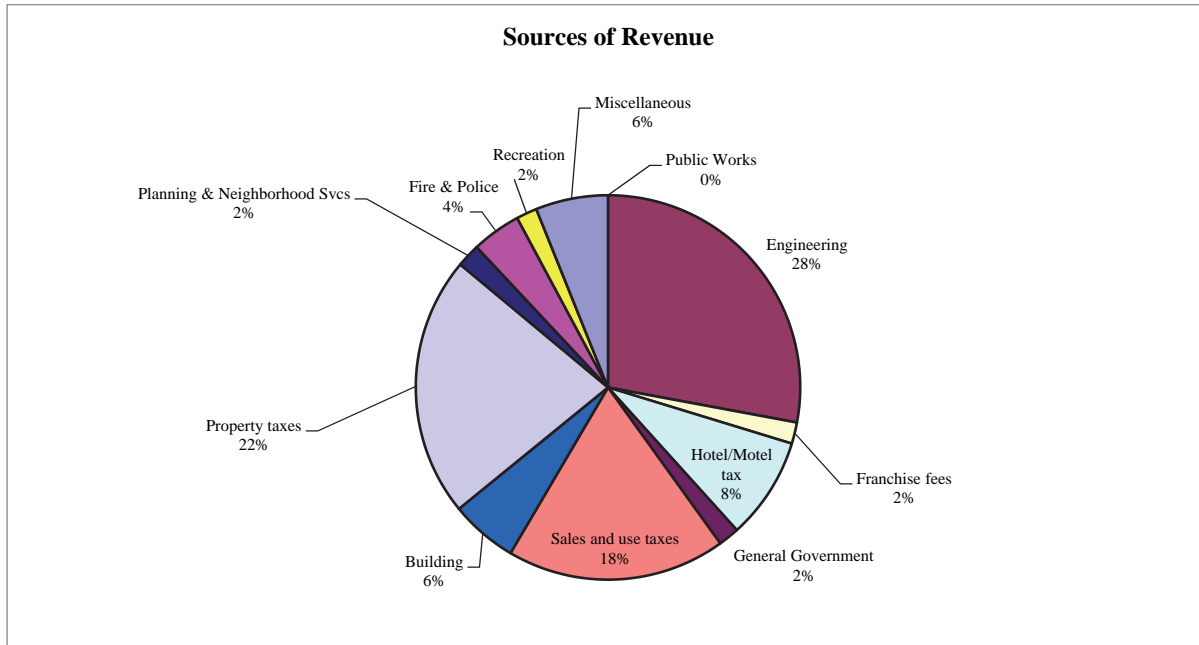
	Governmental Activities	
	2017	2016
Cash and investments	\$181.9	\$138.2
Other assets	70.7	78.3
Capital assets	312.1	298.4
<b>Total assets</b>	<b>564.7</b>	<b>514.9</b>
<b>Deferred Outflows of Resources</b>		
–Related to pensions	<b>33.8</b>	<b>11.0</b>
Long-term debt outstanding	0.0	0.1
Net Pension liabilities	161.0	128.4
Net OPEB obligation	1.8	0.9
Other liabilities	41.3	31.8
<b>Total liabilities</b>	<b>204.1</b>	<b>161.2</b>
<b>Deferred Inflows of Resources</b>		
–Related to pensions	<b>3.7</b>	<b>10.5</b>
Net position:		
Net investment in capital assets	312.1	298.3
Restricted	109.1	117.9
Unrestricted	(30.5)	(62.0)
<b>Total net position</b>	<b>\$390.7</b>	<b>\$354.2</b>

The City's governmental net position was \$390.7 million at June 30, 2017, an increase of \$36.5 million from 2016. This increase is reflected as Change in Net Position in the Governmental Activities column of the Statement of Activities and is also shown in Table 2 of this analysis:

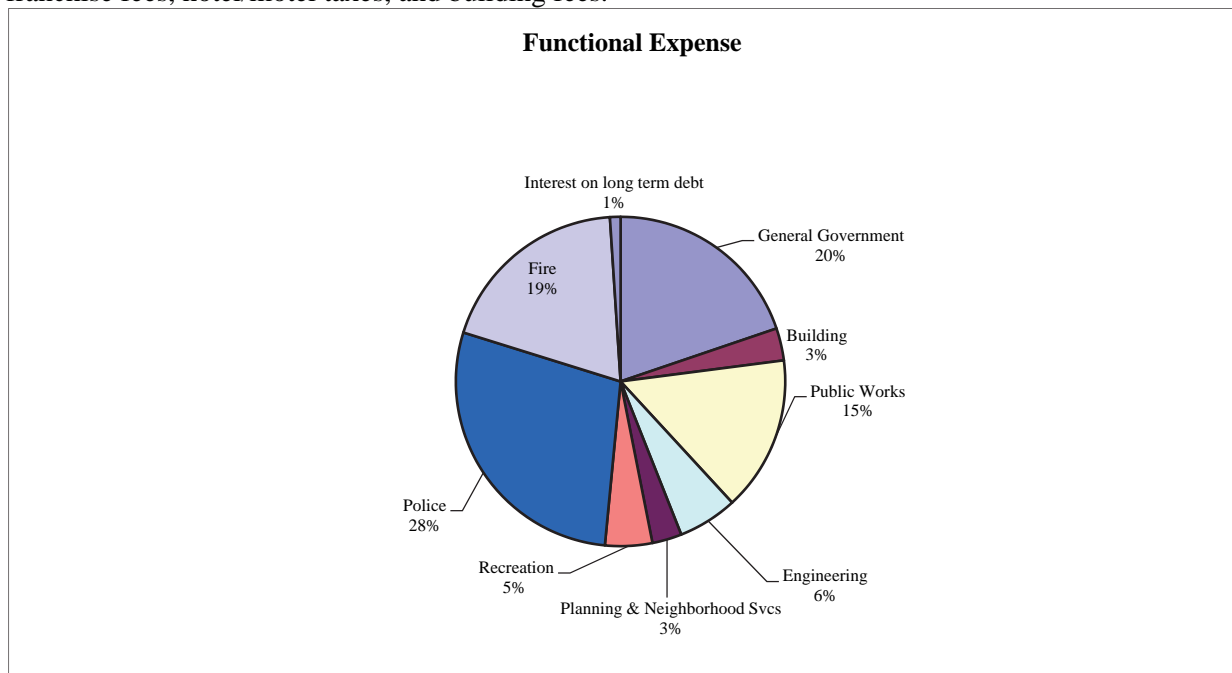
- Cash and investments increased \$43.7 million principally due to increased revenue from property tax, sales and use tax, hotel/motel taxes, gain on sale of property and developer fees.
- Other assets decreased \$7.6 million from last year due to the net activity between receivables and property held for resale.
- Capital assets increased \$13.7 million from last year, resulting from \$16.4 million depreciation, offset by \$30.1 million asset additions, net of retirements in fiscal year 2017.
- Deferred outflows of resources related to pensions increased \$22.9 million from last year due to increased pension costs.
- Long-term debt decreased \$0.1 million due to scheduled debt repayments.

- Net Pension Liabilities, Net OPEB obligations, Other liabilities and deferred inflows of resources increased \$36.1 million primarily due to the decrease in pension related deferred inflows offsetting increases in the net pension liabilities.

### Fiscal Year 2017 Governmental Activities



As the Sources of Revenue Chart above shows, \$38.5 million or 28% of the City's fiscal year 2017 governmental activities revenue came from impact fees collected by the Engineering Department, \$30.3 million or 22% came from property taxes, while \$25.4 million or 18% came from sales and use taxes. The remainder came from a variety of sources, including charges for services, grants and contributions, franchise fees, hotel/motel taxes, and building fees.



The Functional Expenses Chart above includes only current year expenses, which are discussed in detail below. It does not include capital outlays, which are added to the City's capital assets. The composition of fiscal year 2017's capital assets is shown in detail at Table 8.

The Statement of Activities presents program revenues and expenses and general revenues in detail. All these are elements in the Changes in Governmental Net Position as summarized below.

**Table 2**  
**Changes in Governmental Net Position**  
**(in Millions)**

	<u>Governmental Activities</u>	
	<u>2017</u>	<u>2016</u>
<b>Expenses</b>		
General Government	\$21.2	\$18.6
Building	3.4	2.5
Recreation	4.9	4.1
Public Works	16.2	12.7
Engineering	6.2	5.8
Planning & Neighborhood Svcs	3.1	2.6
Police	30.3	24.6
Fire	20.5	16.4
Interest on long term debt	0.1	0.1
Total expenses	<u>105.9</u>	<u>87.4</u>
<b>Revenues</b>		
Program revenues:		
Charges for services	19.5	17.2
Operating contributions and grants	7.9	7.3
Capital Grants	32.3	35.2
Total program revenues	<u>59.7</u>	<u>59.7</u>
General revenues:		
Taxes:		
Property taxes	30.3	27.1
Sales and uses taxes	25.4	23.9
Hotel/Motel taxes	11.9	11.8
Other taxes	0.8	0.8
Franchise fees	3.9	3.8
Investment earnings	0.1	0.9
Gain from sale of property	7.3	0
Miscellaneous	0.1	0.3
Total general revenues	<u>79.8</u>	<u>68.6</u>
Total Revenues	<u>139.5</u>	<u>128.3</u>
Surplus (Deficit) before transfers	<u>33.6</u>	<u>40.9</u>
Transfers	<u>2.9</u>	<u>2.6</u>
Changes in net position	<u>36.5</u>	<u>43.5</u>
Beginning net position	<u>354.2</u>	<u>310.7</u>
<b>Ending net position</b>	<b><u>\$390.7</u></b>	<b><u>\$354.2</u></b>

Table 2 compares fiscal year 2017 expenses and revenues with those of fiscal year 2016. Expenses increased by \$18.5 million in fiscal year 2017, due to almost all of the program expenses experiencing increases in salaries and benefits.



Table 2 shows that total government revenues increased \$11.2 million in fiscal year 2017. Program revenues stayed consistent at \$59.7 million while general revenues increased \$11.2 million. Even though program revenues did not change from fiscal year 2016, the net activity was due to increases of \$2.3 million in charges for services, \$0.6 million increase in operating grants and \$2.9 million decrease in capital grants. The increase in general revenues was mainly due to property tax and sales and use tax revenue and the gain from the sale of property. Property tax revenue was \$3.2 million more than last year due to increase in housing. Sales tax revenue in fiscal year 2017 was \$1.5 million more than fiscal year 2016, due to an economic growth. Transient Occupancy Tax increased \$0.1 million in fiscal year 2017 reflecting recovery in the economy. The decrease of investment earnings by \$0.8 million in fiscal year 2017 was due to the market value loss on investments.

Table 3 presents the net cost of each of the City's largest programs—general government, building, recreation, public works, engineering, planning & neighborhood services, police, fire, and interest expense. Net cost is defined as total program cost less the revenues generated by those specific activities. The net cost of providing similar programs increased \$18.7 million.

**Table 3**  
**Governmental Activities**  
**(in Millions)**

	Net (Expenses) Revenue From Services	
	2017	2016
General Government	\$(18.7)	\$(16.1)
Building	4.4	3.5
Recreation	(2.5)	0.8
Public Works	(16.3)	(12.4)
Engineering	32.3	32.8
Planning & Neighborhood Services	(0.4)	0.0
Police	(27.8)	(22.4)
Fire	(17.3)	(13.8)
Interest on long term debt	(0.1)	(0.1)
<b>Totals</b>	<b>\$(46.4)</b>	<b>\$(27.7)</b>

*Business-type Activities*

**Table 4**  
**Business-Type Net Position at June 30**  
**(in Millions)**

	Business-Type Activities	
	2017	2016
Cash and investments	\$63.7	\$56.4
Other assets	3.1	2.9
Capital assets	128.5	124.6
<b>Total assets</b>	<b>195.3</b>	<b>183.9</b>
<b>Deferred Outflows of Resources</b>		
– Related to Pensions	<b>0.9</b>	<b>0.5</b>
Other liabilities	2.9	2.9
Net pension liabilities	4.2	6.1
Long-term Debt	5.6	6.0
<b>Total liabilities</b>	<b>12.7</b>	<b>15.0</b>
<b>Deferred Inflows of Resources</b>		
– Related to Pensions	<b>0.0</b>	<b>0.4</b>
Net position:		
Net investment in capital assets	122.9	118.6
Restricted	40.3	35.1
Unrestricted	20.3	15.3
<b>Total net position</b>	<b>\$183.5</b>	<b>\$169.0</b>

The net position of business-type activities were \$183.5 million in fiscal year 2017, an increase of \$14.5 million from fiscal year 2016. Total assets increased \$11.4 million and deferred outflows and inflows increased \$0.4 million and decreased \$0.4 million, respectively. The increase in net position was due to the increase from increased customer service charges and capital contributions for the Sewer Fund.

**Table 5**  
**Changes in Business-Type Net Position**  
**(in Millions)**

	Business-Type Activities	
	2017	2016
<b>Expenses</b>		
Water Utility	\$20.7	\$19.7
Sewer Utility	9.9	10.9
Total expenses	<u>30.6</u>	<u>30.6</u>
<b>Revenues</b>		
Program revenues:		
Charges for services	43.1	34.7
Operating grants	0.1	0.0
Capital grants	4.9	1.1
Total program revenues	<u>48.1</u>	<u>35.8</u>
General revenues:		
Investment earnings	<u>(0.1)</u>	<u>0.7</u>
Total general revenues	<u>(0.1)</u>	<u>0.7</u>
Total Revenues	<u>48.0</u>	<u>36.5</u>
Excess before transfers	17.3	5.9
Transfers	<u>(2.9)</u>	<u>(2.6)</u>
Changes in net position	14.5	3.3
Beginning net position	<u>169.0</u>	<u>165.7</u>
<b>Ending net position</b>	<b><u>\$183.5</u></b>	<b><u>\$169.0</u></b>

Table 5 compares fiscal year 2017 expenses and revenues with those of fiscal year 2016. Total expenses were flat in fiscal year 2017 due to a decrease in personnel services and are offset against the increase in purchase water and contractual services. Total program revenues increased by \$12.3 million, primarily due to an increase in charges for services and capital grants. Total general revenue decreased \$0.8 million from interest earnings last year due to the reporting of market value loss on investments. The net transfers represent reimbursements of administration costs to the General Fund.

## FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Table 6 below summarizes activities and balances of the governmental funds at the fund level:

**Table 6**  
**Financial Highlights of Governmental Funds at Fund Level at June 30**  
**(in Millions)**

	2017	2016
Total assets	\$245.3	\$210.2
Total liabilities	31.7	23.6
Total deferred inflows of resources	1.8	2.6
Total fund balances	211.8	183.9
Total revenues	126.4	124.4
Total expenditures	109.4	100.6
Total other financing sources	10.8	3.3

At June 30, 2017, the City's governmental funds reported combined fund balances of \$211.8 million, an increase of \$27.9 million from last year. The fund balances of the General Government Capital Projects and the Other Governmental Funds decreased \$0.4 million and \$1.1 million, respectively, while the fund balances of the General Fund, Housing Authority, Transit Area Impact Fee and Street Improvement Capital Projects Fund increased \$18.4 million, \$0.4 million, \$6.7 million, and \$3.8 million, respectively.

Revenues at the fund level totaled \$126.4 million, an increase of \$2.0 million. Revenues for the General Fund and General Government increased \$6.3 million and \$0.1 million, respectively. Housing Authority, Street Improvement Fund, Transit Area Impact Fee Fund, and Other Governmental Funds decreased \$0.1 million, \$1.8 million, and \$1.8 million, and \$0.7 million, respectively.

Expenditures increased \$8.8 million this year to \$109.4 million from last year's \$100.6 million. The expenditures of the General Fund, Transit Area Impact Fee Fund, and General Government Fund increased \$7.6 million, \$6.7 million, and \$1.1 million, respectively while the Street Improvement and other Governmental Funds decreased \$3.2 million and \$3.4 million respectively. The expenditures of Housing Authority Fund remained at the same level as last year's \$0.4 million.

## ***Analyses of Major Governmental Funds***

### **General Fund**

General Fund revenues increased to \$92 million this fiscal year, up \$6.3 million from the prior fiscal year. Increases came from property tax revenue, sales taxes, other taxes, licenses and fines, and other revenue categories while decreases came from use of money and property, intergovernmental revenue, and charges for services. Property tax revenue increased \$3.2 million due to the recovery in the housing market thus increasing the assessed valuation of properties throughout the City.

Sales tax increased by approximately \$1.5 million due to an increase in consumer spending. Other taxes increased slightly by \$0.1 million primarily due to increased Transient Occupancy Tax revenue and franchise fees. Licenses and permits increased \$2.5 million primarily from the building permit and inspection fees as a result of increased development activities. Intergovernmental revenue decreased by \$0.4 million due to the winding down of the BART construction. Charges for services also decreased by \$0.2 million due to decreased revenues for planning and engineering fees received from private developments and increased police, fire, and recreation service charges.

General Fund expenditures increased \$7.6 million to \$80.3 million in fiscal year 2017 primarily due to an increase in salaries and benefits.

Net Other Financing Sources were approximately \$6.7 million which included a gain from sale of property held for resale for \$7.3 million. Net transfers out were approximately \$0.6 million, as compared to net transfers out of \$8.4 million in fiscal year 2016. Net transfers consist of \$6 million from other funds for operating costs and transfers out of \$6.6 million for funding of future capital projects.

For the City's General Fund, actual revenues of \$92 million were \$10.6 million more than the final budgeted revenues of \$81.4 million. Property taxes, Sales taxes, Other taxes, and Licenses and fines, exceeded budget by \$3.5 million, \$4.2 million, \$1 million, and \$3.1 million, respectively. These increases were due to the improving views on the state of the economic recovery, increased property values and increased development activities.

At the end of the year, actual General Fund expenditures were \$81 million, \$5.8 million less than final budget of \$86.8 million. Savings were primarily in the following departments Non-departmental \$1.1 million due to decreased payroll, benefits and utility expenditures, City Manager \$0.6 million, Police \$1.1 million, Engineering \$0.7 million, Public Works \$0.4 million, Building and Safety \$0.7 million were mostly related to delays in hiring personnel.

The difference in General Fund original expenditure budget and final expenditure budget was \$3.3 million. The appropriations consisted of \$2.6 million of expenditures funded by additional grants, donations, sale of property and developer fees and \$0.7 million of new appropriations.

### **Housing Authority**

This Fund accounts for the housing activities assumed from the former Redevelopment Agency designed to increase the amount of low and moderate-income housing available in the City. Total revenues were \$0.9 million in fiscal year 2017, comprised of \$0.9 million of interest, rental income and repayment of housing loans. Total expenditures were \$0.4 million for administration and operation of the "Silent Second" loan program, management of four affordable housing units and one commercial property with eight tenants.

### **Street Improvement Capital Project**

The Street Improvement Capital Project Fund accounts for the majority of the street capital projects activity in the City that is not developed in the Transit Area. The Fund's revenues were \$0.9 million in fiscal year 2017, a decrease of \$1.8 million from fiscal year 2016. The decrease in revenues was due to one-time intergovernmental revenues and developer contributions in the prior year. Fund expenditures were \$4.1 million in fiscal year 2017, a decrease of \$3.2 million from fiscal year 2016, attributed to capital outlay decreases. Transfers in of \$7 million were from the General Fund, Gas Tax Special Revenue Fund, Transit Area Impact Fee Capital Projects Fund, Water and Sewer Utilities Fund for capital improvement project funding.

### **Transit Area Impact Fee**

The Transit Area Impact Fee Fund was established in fiscal 2009 to account for impact fees revenue collected from developers and related capital expenditures in the Transit Area. In fiscal year 2017, fund revenues were \$24.7 million, primarily from fees collected from developers. Expenditures were \$16.5 million, consisting of \$16.4 million capital improvement projects. The transfers out of \$1.6 million to the Water Utility Enterprise Fund and the Park Improvement Capital Project fund were to fund capital projects.

### **General Government Capital Projects**

The General Government Capital Projects Fund accounts for construction and maintenance of general government projects in the City. In fiscal year 2017, expenditures were \$2.8 million, consisting of \$2.8 million of capital improvement project expenditures. The transfers in of \$3.5 million were primarily from the General Fund, Solid Waste Reduction and Services Fund, Lighting and Landscape Maintenance District Fund, Park Improvement Fund, Storm Drain Development Capital Project Fund, Water and Sewer Utility Funds and the transfers out of \$1.5 million were to the General Fund, Equipment Fund and the Storm Drain Fund, to return unexpended project fund and for the purpose of capital project funding.

### **Other Governmental Funds**

These funds are not presented separately in the Basic Financial Statements, but are individually presented as Supplemental Information.

## **Fund Balance Classifications**

Fund balances are classified in five categories: nonspendable, restricted, committed, assigned and unassigned based on a hierarchy of constraint. Further details on fund balance classifications can be found in Note 10B.

Table 7 shows the classification of the fund balances of the major governmental funds.

**Table 7**  
**Fund Balances at June 30 – Major Governmental Funds**  
**(in Millions)**

	2017	2016
General Fund		
Nonspendable	\$ 20.2	\$ 23.4
Committed	19.0	8.4
Assigned	8.1	9.1
Unassigned	25.4	13.4
Total	<u>\$72.7</u>	<u>\$54.3</u>
 Housing Authority Fund		
Restricted	<u>\$52.4</u>	<u>\$51.9</u>
 Street Improvement Fund		
Restricted	<u>\$12.2</u>	<u>\$8.4</u>
 Transit Area Impact Fee Fund		
Restricted	<u>\$17.4</u>	<u>\$10.7</u>
 General Government Project Fund		
Assigned	<u>\$29.4</u>	<u>\$29.8</u>

At June 30, 2017, the fund balance of the General Fund was \$72.7 million: \$20.2 million was classified as nonspendable, comprised of \$10.3 million for loan receivable, \$0.5 for prepaid materials and supplies, \$4.2 million of property held for resale, and \$5.1 million for advances to other funds; \$19 million for PERS Rate Stabilization was classified as committed; \$8.1 million of the fund balance comprised of \$4.5 million for capital improvement, \$2.8 million for uninsured claims and \$0.8 million for encumbrances, was classified as assigned; \$25.4 million was classified as unassigned.

The fund balances of the Housing Authority Fund, Street Improvement Fund and the Transit Area Impact Fee Fund were also classified as restricted because the amounts were restricted for specific purposes.

The fund balance of the General Government Fund was classified as assigned due to Council's reserve policy.

### ***Analyses of Major Proprietary Funds***

Total operating revenues of Business-type Activities increased \$8.5 million from last year, while operating expenses had no significant change. Total operating revenues and total operating expenses were \$43.1 million and \$30.4 million respectively. Non-operating revenues (expenses) were (\$0.2) million in fiscal year 2017, a decrease of \$0.7 million from the prior year. Capital contributions increased by \$3.8 million while net transfers out decreased by \$0.5 million.

#### **Water Utility**

Water fund revenues were \$26.3 million in fiscal year 2017, up \$7.6 million from prior year. The increase in revenues was primarily due to \$4 million of the capital surcharge and the increase in consumption due to the lifting of restrictions for the water conservation. Expenses were \$20.7 million in fiscal year 2017, up \$1 million from prior year, primarily due to increased purchased water expense offset by a decrease in personnel services of \$1 million. Net position of the Water Utility Fund increased \$7 million in the current year to a total of \$72.6 million. The increase comprised of a \$5.6 million operating income for the current year, \$0.1 million in non-operating revenues, \$3.0 million capital contributions from developers, offset by net transfers out of \$1.7 million. The transfer out of \$3 million was to reimburse \$2.6 million of administration costs incurred by the General Fund and to fund \$0.4 million in capital projects.

This fund's Net Position includes \$48.8 million invested in capital assets, \$19 million in restricted net position, and \$4.8 million in unrestricted net position.

#### **Sewer Utility**

Sewer fund revenues were \$16.8 million in fiscal year 2017, up \$0.8 million from the prior year due to an increase in usage. Expenses were \$9.7 million in fiscal year 2017, down \$0.9 million from the prior year due to a decrease in personnel services. Non-operating revenues and expenses in fiscal year 2017 consisted of \$0.1 million interest income, and \$0.2 million interest expense. Net position of the Sewer Utility Fund increased \$7.5 million in the current year to a total of \$110.9 million. This increase comprised of \$7.0 million in operating income, \$2.8 million in capital contributions by developers, offset by \$2.1 million net transfers out. The transfers out of \$2.1 million were to reimburse \$1.6 million in administration costs incurred by the General Fund and to fund \$0.5 million in capital projects.

\$15.4 million of the Fund's Net Position was unrestricted at the fiscal year end. Of the remainder, \$74.1 million was invested in capital assets and \$21.3 million was restricted as to use.



## CAPITAL ASSETS

The City records the cost of all its infrastructure assets such as roads, bridges, signals and similar assets used by the general population and computed the amount of accumulated depreciation for these assets based on their original acquisition dates. At the end of fiscal year 2017, the cost of infrastructure and other capital assets recorded on the City's financial statements was as shown in Table 8 below:

**Table 8**  
**Capital Assets at Year-end**  
**(in Millions)**

	2017	2016
<b><i>Governmental Activities:</i></b>		
Land	\$ 57.6	\$ 57.6
Construction in progress	59.8	36.3
Buildings and improvements	163.1	162.7
Other improvements	28.9	27.0
Machinery and equipment	39.9	39.4
Landscape system	29.7	29.7
Storm system	74.3	74.3
Street system	256.4	252.9
Traffic system	19.0	18.9
Less accumulated depreciation	(416.6)	(400.4)
<b>Totals</b>	<b>\$312.1</b>	<b>\$298.4</b>
<b><i>Business-type Activities:</i></b>		
Land	\$ 1.1	\$ 1.1
Construction in progress	9.3	11.1
Distribution facilities	80.4	79.6
Service lines	14.6	13.7
Sewer lines	84.0	81.8
Capacity rights	62.0	55.4
Less accumulated depreciation	(122.9)	(118.1)
<b>Totals</b>	<b>\$128.5</b>	<b>\$124.6</b>

The principal additions in fiscal year 2017 were to the construction-in-progress, machinery and equipment, street system, sewer lines and capacity rights. Construction in progress included the Main Street Pavement Reconstruction, street resurfacing, Alviso Adobe renovation, Milpitas Sport Center Facility Improvements and TASP infrastructure improvements.

The City depreciates all its capital assets over their estimated useful lives. The purpose of depreciation is to spread the cost of a capital asset over the years of its useful life so that an allocable portion of the cost of the asset is borne by all users. Additional information on depreciable lives and current year activities may be found in Note 8.

## DEBT ADMINISTRATION

A portion of the City's debt was issued to finance Sewer infrastructure improvements. This debt issue is secured by the sewer revenue. In fiscal year 2013, the City entered into a capital lease for the purchase of a phone system and equipment. The lease required annual payments until fiscal year 2017. Each of the City's debt issuances is discussed in detail in Note 9 to the financial statements. At June 30, 2017 the City's debt comprised:

**Table 9**  
**Outstanding Debt**  
**(in Millions)**

	Balance June 30, 2017	Balance June 30, 2016
<b>Governmental Activity Debt:</b>		
<b>Cisco Phone System Capital Lease</b>		
Due September 18, 2016	\$ 0.0	\$ 0.1
Total Governmental Activity Debt	\$ 0.0	\$ 0.1
<b>Business-type Activity Debt:</b>		
<b>Sewer Certificates of Participation, 2006 Series A</b>		
3.4% -4.2%, due November 1, 2026	\$ 5.6	\$ 6.1
Total Business-type Activity Debt	\$ 5.6	\$ 6.1

## LOCAL IMPROVEMENT DISTRICT DEBT

Local improvement districts in different parts of the City have issued debt to finance infrastructure and facilities construction entirely in those districts. At June 30, 2017, a total of \$3.1 million in local improvement district debt was outstanding, issued by two local improvement districts. This debt is secured only by special assessments on the real properties in the district issuing the debt, and is not the City's responsibility. The City does act as these Districts' agent in the collection and remittance of assessments, and in the management of facilities construction. Further detail on these districts may be found in Note 15 to the financial statements.

## ECONOMIC OUTLOOK AND MAJOR INITIATIVES

The economy of the City and its major initiatives for the coming year are discussed in detail in the accompanying Transmittal Letter.

## CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This Comprehensive Annual Financial Report is intended to provide citizens, taxpayers, investors, and creditors with a general overview of the City's finances. Questions about this Report should be directed to the Finance Department, at 455 East Calaveras Boulevard, Milpitas, CA 95035-5479 or to the City's website at [www.ci.milpitas.ca.gov](http://www.ci.milpitas.ca.gov).

## STATEMENT OF NET POSITION AND STATEMENT OF ACTIVITIES

The Statement of Net Position reports the difference between the City's total assets and deferred outflows of resources and the City's total liabilities and deferred inflows of resources, including all the City's capital assets and all its long-term debt. The Statement of Net Position focuses the reader on the composition of the City's net position by subtracting total liabilities and deferred inflows of resources from total assets and deferred outflows of resources.

The Statement of Net Position summarizes the financial position of the City's Governmental Activities in a single column, and the financial position of all the City's Business-type Activities in a single column; these columns are followed by a Total column that presents the financial position of the primary government. This column is followed by a column that displays the discretely presented component unit.

The City's Governmental Activities include the activities of its General Fund, along with all its Special Revenue, Capital Projects and Debt Service Funds. Since the City's Internal Service Funds service these Funds, their activities are consolidated with Governmental Activities, after eliminating inter-fund transactions and balances. The City's Business-type Activities include all its Enterprise Fund activities.

The Statement of Activities reports increases and decreases in the City's net position. It is prepared on the full accrual basis, which means it includes all the City's revenues and all its expenses, regardless of when cash changes hands. This differs from the "modified accrual" basis used in the Fund financial statements, which reflect only current assets, current liabilities, deferred inflows/outflows of resources, available revenues and measurable expenditures.

The Statement of Activities presents the City's expenses first, listed by the program, and follows these with the expenses of its Business-type Activities. Program revenues – that is, revenues which are generated directly by these programs – are then deducted from program expenses to arrive at the net expense of each governmental and business-type program. The City's general revenues are then listed in the Governmental Activities, Business-type Activities or discretely presented component unit column, as appropriate, and the Change in Net Position is computed and reconciled with the Statement of Net Position.

Both of these Statements include the financial activities of the City and the blended component units: the Milpitas Public Financing Authority (MPFA), the Milpitas Economic Development Corporation (EDC), the City of Milpitas Housing Authority (Housing Authority) and the Milpitas Municipal Financing Authority (MMFA). The Financing Authorities and Housing Authority are legally separate component units of the City, because they are controlled by the City and the City is financially accountable for their activities. The EDC is a California nonprofit public benefit Corporation that is also a legally separate component unit of the City because it is governed by a board consisting of the members of the City Council. The EDC became inactive as of June 30, 2015. The balances and the activities of the discretely presented component unit of Terrace Gardens, Inc. are included in these statements as separate columns.

These financial statements along with the fund financial statements and footnotes are called *Basic Financial Statements*.



CITY OF MILPITAS  
STATEMENT OF NET POSITION  
JUNE 30, 2017

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Terrace Gardens Inc.
<b>ASSETS</b>				
Cash and investments available for operations (Note 3)	\$181,937,709	\$63,699,240	\$245,636,949	\$110,470
Restricted investments (Note 3)				1,538,926
Receivables:				
Accounts	4,158,945	2,607,384	6,766,329	66,742
Due from other governments	2,955,812	1,752	2,957,564	
Interest	481,137	168,338	649,475	
Loans receivable (Note 5)	43,097,886		43,097,886	
Prepays, materials, supplies and deposits (Note 1E)	683,932	246,462	930,394	124,620
Property held for resale (Note 6)	19,234,314		19,234,314	
Capital assets and capacity rights (Note 8):				
Land and construction in progress	117,404,988	10,422,335	127,827,323	1,565,277
Depreciable capital assets, net	194,733,400	118,119,800	312,853,200	6,835,373
Total assets	564,688,123	195,265,311	759,953,434	10,241,408
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Related to pensions (Note 11D)	33,850,172	889,837	34,740,009	
<b>LIABILITIES</b>				
Accounts payable	12,886,173	2,353,184	15,239,357	148,586
Accrued payroll	2,093,184	72,025	2,165,209	3,596
Interest payable		36,009	36,009	
Uninsured claims payable (Note 13):				
Due within one year	983,977		983,977	
Due in more than one year	5,294,395		5,294,395	
Refundable deposits	3,941,867	98,089	4,039,956	77,101
Unearned revenue	7,797,639		7,797,639	14,734
Accrued vacation (Note 12C):				
Due within one year	2,737,175	113,424	2,850,599	14,429
Due in more than one year	1,929,706	117,252	2,046,958	
Sick leave payable (Note 12C):				
Due within one year	982,520	32,446	1,014,966	
Due in more than one year	2,658,259	73,562	2,731,821	
Net pension liabilities (Note 11C)	161,028,720	4,150,596	165,179,316	
Net OPEB obligation (Note 12B)	1,811,512		1,811,512	
Long term debt (Note 9):				
Due within one year		470,000	470,000	
Due in more than one year		5,135,000	5,135,000	
Total liabilities	204,145,127	12,651,587	216,796,714	258,446
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Related to pensions (Note 11D)	3,715,849	599	3,716,448	
<b>NET POSITION (Note 10)</b>				
Net investment in capital assets and capacity rights	312,138,388	122,937,135	435,075,523	8,400,650
Restricted for:				
Capital projects	53,226,316	40,311,400	93,537,716	
Redevelopment and community development activities	55,903,406		55,903,406	
Total restricted net position	109,129,722	40,311,400	149,441,122	
Unrestricted	(30,590,791)	20,254,427	(10,336,364)	1,582,312
Total net position	\$390,677,319	\$183,502,962	\$574,180,281	\$9,982,962

See accompanying notes to financial statements

CITY OF MILPITAS  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	
					Governmental Activities	Business-type Activities
<b>Primary Government:</b>						
Governmental Activities:						
General Government	\$21,173,934	\$1,969,603	\$242,419	\$217,158	(\$18,744,754)	
Building and Safety	3,389,377	7,814,236			4,424,859	
Recreation	4,949,235	2,301,337	110,362		(2,537,536)	
Public Works	16,265,667				(16,265,667)	
Engineering	6,248,805	2,720,057	3,880,229	31,941,716	32,293,197	
Planning and Neighborhood Services	3,102,909	292,447	2,434,824		(375,638)	
Police	30,270,057	1,184,370	1,201,082	96,785	(27,787,820)	
Fire	20,498,936	3,223,724	11,576		(17,263,636)	
Interest on long term debt	48,173				(48,173)	
Total Governmental Activities	105,947,093	19,505,774	7,880,492	32,255,659	(46,305,168)	
Business-type Activities:						
Water Utility	20,666,134	26,318,152	88,515	2,183,279		\$7,923,812
Sewer Utility	9,968,794	16,803,344		2,754,156		9,588,706
Total Business-type Activities	30,634,928	43,121,496	88,515	4,937,435		17,512,518
Total Primary Government	\$136,582,021	\$62,627,270	\$7,969,007	\$37,193,094	(46,305,168)	17,512,518
<b>Component Unit:</b>						
Terrace Gardens Inc.	\$2,002,197	\$1,940,961	\$65,972			
General revenues:						
Taxes:						
Property taxes					30,261,513	
Sales and use taxes					25,391,893	
Hotel/Motel taxes					11,857,858	
Other taxes					803,419	
Franchise fees, unrestricted					3,871,203	
Motor vehicle in lieu, unrestricted					33,832	
Investment earnings					118,161	(65,074)
Gain from sale of property					7,323,687	
Miscellaneous					117,829	
Transfers (Note 4)					2,923,473	(2,923,473)
Total general revenues and transfers					82,702,868	(2,988,547)
Change in Net Position					36,397,700	14,523,971
Net position-Beginning					354,279,619	168,978,991
Net position-Ending					\$390,677,319	\$183,502,962

See accompanying notes to financial statements







## **FUND FINANCIAL STATEMENTS**

The Fund Financial Statements present individual major funds, while non-major funds are combined in a single column. Major funds are defined generally as having significant activities or balances in the current year. No distinction is made between Fund types.

## **MAJOR GOVERNMENTAL FUNDS**

The funds described below were determined to be Major Funds by the City. Individual non-major funds may be found in the Supplemental section.

### **GENERAL FUND**

The General Fund is used for all the general revenues of the City not specifically levied or collected for other City funds and the related expenditures. The general fund accounts for all financial resources of a governmental unit, which are not accounted for in another fund.

### **HOUSING AUTHORITY FUND**

Established to plan and address the housing needs of the City and to act as the Housing Successor Agency for the former Redevelopment Agency. The main source of the revenue for this fund is the repayment of loans restricted for housing activities.

### **STREET IMPROVEMENT FUND**

Established to account for the construction and maintenance of the street system in Milpitas. Financing may be provided through state and federal grants.

### **TRANSIT AREA IMPACT FEE FUND**

Established to account for capital projects in the transit area. A special transit area impact fee is imposed on developments to provide financing.

### **GENERAL GOVERNMENT CAPITAL PROJECT FUND**

Established to account for the construction and maintenance of general government projects. Financing provided by the General Fund.





CITY OF MILPITAS  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2017

	<u>General</u>	<u>Housing Authority</u>	<u>Street Improvement</u>	<u>Transit Area Impact Fee</u>
<b>ASSETS</b>				
Cash and investments available for operations (Note 3)	\$63,428,475	\$8,094,668	\$12,180,077	\$31,432,525
Receivables:				
Accounts	2,294,835			1,780,214
Due from other governments	2,096,505		20,263	697,362
Interest	171,201	21,438	31,708	87,624
Due from other funds (Note 4A)	7,151			
Loans receivable, net (Note 5)	10,335,400	29,292,366		
Prepays, materials, supplies and deposits (Note 1E)	554,209	4,667		
Property held for resale (Note 6)	4,200,000	15,034,314		
Advances to other funds (Note 4C)	5,119,750			
	<u>5,119,750</u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Assets	<u>\$88,207,526</u>	<u>\$52,447,453</u>	<u>\$12,232,048</u>	<u>\$33,997,725</u>
<b>LIABILITIES</b>				
Accounts payable	\$1,952,732	\$2,014	\$65,913	\$9,709,570
Accrued payroll	2,042,141	1,815	4,864	2,042
Refundable deposits	3,909,569	12,600		806
Unearned revenue	7,561,623	1,021		
Due to other funds (Note 4A)				
Advances from other funds (Note 4C)				5,119,750
	<u>15,466,065</u>	<u>17,450</u>	<u>70,777</u>	<u>14,832,168</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue - accounts receivable (Note 7F)				1,780,214
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>1,780,214</u>
<b>FUND BALANCES</b>				
Fund balances (Note 10):				
Nonspendable	20,209,359	4,667		
Restricted		52,425,336	12,161,271	17,385,343
Committed	19,025,620			
Assigned	8,066,566			
Unassigned	25,439,916			
	<u>72,741,461</u>	<u>52,430,003</u>	<u>12,161,271</u>	<u>17,385,343</u>
TOTAL FUND BALANCES	<u>72,741,461</u>	<u>52,430,003</u>	<u>12,161,271</u>	<u>17,385,343</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$88,207,526</u>	<u>\$52,447,453</u>	<u>\$12,232,048</u>	<u>\$33,997,725</u>

Amounts reported for Governmental Activities in the Statement of Net Position are different from those reported in the Governmental Funds above because of the following:

**CAPITAL ASSETS**

Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Gove

**ALLOCATION OF INTERNAL SERVICE FUND NET POSITION**

Internal service funds are not governmental funds. However, they are used by management to charge the costs of certain activities, s central services and maintenance, to individual governmental funds. The net current assets of the Internal Service Funds are theref in Governmental Activities in the Statement of Net Position.

**LONG TERM ASSETS AND LIABILITIES**

The assets and liabilities below are not due and payable in the current period and therefore are not reported in the Funds:

- Unavailable revenue
- Net pension liability and pension-related deferred outflows/inflows of resources
- Net OPEB obligation
- Non-current portion of accrued vacation and sick leave
- Non-current portion of uninsured claims payable

**NET POSITION OF GOVERNMENTAL ACTIVITIES**

See accompanying notes to financial statements

General Government Capital Projects	Other Governmental Funds	Total Governmental Funds
\$29,489,710	\$25,069,843	\$169,695,298
	83,896	4,158,945
	141,682	2,955,812
73,555	63,004	448,530
		7,151
	3,470,120	43,097,886
	10,086	568,962
		19,234,314
		5,119,750
<u>\$29,563,265</u>	<u>\$28,838,631</u>	<u>\$245,286,648</u>
\$184,266	\$848,642	\$12,763,137
1,257	17,524	2,069,643
	18,843	3,941,818
	234,995	7,797,639
	7,151	7,151
		5,119,750
<u>185,523</u>	<u>1,127,155</u>	<u>31,699,138</u>
		<u>1,780,214</u>
	10,086	20,224,112
	27,444,075	109,416,025
		19,025,620
29,377,742	257,315	37,701,623
		25,439,916
<u>29,377,742</u>	<u>27,711,476</u>	211,807,296
<u>\$29,563,265</u>	<u>\$28,838,631</u>	
		312,138,388
		12,123,099
		1,780,214
		(130,894,397)
		(1,811,512)
		(8,187,397)
		(6,278,372)
		<u>\$390,677,319</u>

CITY OF MILPITAS  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2017

	General	Housing Authority	Street Improvement	Transit Area Impact Fee
REVENUES				
Property taxes	\$30,261,513			
Sales taxes	26,213,910			
Other taxes	16,861,843			
Licenses and fines	10,496,738			
Use of money and property	823,603	\$853,545	\$290	\$229,331
Intergovernmental	771,293		664,109	697,362
Charges for services	6,404,867			
Developer contributions			207,550	23,754,345
Other	154,327	5,543		
Total Revenues	91,988,094	859,088	871,949	24,681,038
EXPENDITURES				
Current:				
General Government	16,805,261	189,574		
Building and Safety	3,148,178			
Recreation	3,876,080			
Public Works	5,919,513			
Engineering	2,838,918			
Planning and Neighborhood Services	2,231,823	255,132		4,195
Police	26,989,073			
Fire	18,455,992			
Capital outlay			4,139,256	16,438,708
Debt service:				
Interest and fees				47,542
Total Expenditures	80,264,838	444,706	4,139,256	16,490,445
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	11,723,256	414,382	(3,267,307)	8,190,593
OTHER FINANCING SOURCES (USES)				
Gain from sale of property	7,275,743	47,944		
Transfers in (Note 4B)	6,024,100		7,040,000	150,000
Transfers (out) (Note 4B)	(6,570,000)		(36,414)	(1,640,000)
Total Other Financing Sources (Uses)	6,729,843	47,944	7,003,586	(1,490,000)
NET CHANGE IN FUND BALANCES	18,453,099	462,326	3,736,279	6,700,593
Fund balances (deficits) at beginning of year	54,288,362	51,967,677	8,424,992	10,684,750
FUND BALANCES AT END OF YEAR	\$72,741,461	\$52,430,003	\$12,161,271	\$17,385,343

See accompanying notes to financial statements

General Government Capital Projects	Other Governmental Funds	Total Governmental Funds
		\$30,261,513
		26,213,910
	\$2,487,120	19,348,963
		10,496,738
\$217,158	55,690	2,179,617
96,785	2,466,150	4,695,699
	832,997	7,237,864
	1,675,400	25,637,295
	150,185	310,055
<u>313,943</u>	<u>7,667,542</u>	<u>126,381,654</u>
	93,827	17,088,662
		3,148,178
		3,876,080
	919,980	6,839,493
	688,435	3,527,353
	487,068	2,978,218
	258,406	27,247,479
		18,455,992
2,778,556	2,794,008	26,150,528
		47,542
<u>2,778,556</u>	<u>5,241,724</u>	<u>109,359,525</u>
<u>(2,464,613)</u>	<u>2,425,818</u>	<u>17,022,129</u>
		7,323,687
3,461,298	1,730,000	18,405,398
<u>(1,457,078)</u>	<u>(5,199,094)</u>	<u>(14,902,586)</u>
<u>2,004,220</u>	<u>(3,469,094)</u>	<u>10,826,499</u>
(460,393)	(1,043,276)	27,848,628
<u>29,838,135</u>	<u>28,754,752</u>	<u>183,958,668</u>
<u>\$29,377,742</u>	<u>\$27,711,476</u>	<u>\$211,807,296</u>

CITY OF MILPITAS  
Reconciliation of the  
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS  
with the  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2017

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Position of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$27,848,628
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Amounts reported for governmental activities in the Statement of Activities are different because of the following:

CAPITAL ASSETS TRANSACTIONS

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.

The capital outlay expenditures are therefore added back to fund balance (Internal service fund additions of \$515,137 have already been added to capital assets)	29,599,482
Depreciation expense is deducted from the fund balance (Depreciation expense is net of internal service fund depreciation of \$718,185 which has already been allocated to serviced funds.)	(15,644,217)

ACCRUAL OF NON-CURRENT ITEMS

The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):

Non-current portion of accrued vacation and sick leave	(340,849)
Non-current portion of uninsured claims payable	(1,096,143)
Net pension liabilities and pension-related deferred outflows/inflows of resources	(2,980,085)
Net OPEB obligation	(905,330)
Unavailable revenue	(832,595)

ALLOCATION OF INTERNAL SERVICE FUND ACTIVITY

Internal Service Funds are used by management to charge the costs of certain activities, such as equipment acquisition, maintenance, and insurance to individual funds.

The portion of the net revenue (expense) of these Internal Service Funds arising out of their transactions with governmental funds is reported with governmental activities, because they service those activities.

Change in Net Position - All Internal Service Funds	748,809
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CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$36,397,700
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See accompanying notes to financial statements



CITY OF MILPITAS  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)  
FOR THE YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Budget Positive (Negative)
	Original	Final		
Revenues				
Property taxes	\$26,716,000	\$26,716,000	\$30,261,513	\$3,545,513
Sales taxes	21,990,763	21,990,763	26,213,910	4,223,147
Other taxes	15,837,000	15,837,000	16,861,843	1,024,843
Licenses and fines	7,300,000	7,359,600	10,496,738	3,137,138
Use of money and property	825,000	825,000	823,603	(1,397)
Intergovernmental	923,000	1,375,919	771,293	(604,626)
Charges for services	6,402,700	7,120,000	6,404,867	(715,133)
Other	101,000	143,045	154,327	11,282
Total Revenues	80,095,463	81,367,327	91,988,094	10,620,767
Expenditures				
Current:				
General Government:				
City Manager	2,366,051	2,872,303	2,250,701	621,602
City Attorney	775,207	1,082,207	1,061,463	20,744
Finance	2,615,275	2,615,275	2,597,855	17,420
Human Resources	1,296,160	1,296,160	1,163,433	132,727
Information Services	2,452,668	2,452,668	2,317,510	135,158
Non-departmental	8,196,277	9,135,386	7,998,467	1,136,919
Building and Safety	3,852,637	3,852,637	3,148,178	704,459
Recreation	4,226,605	4,309,986	3,888,473	421,513
Public Works	6,143,481	6,357,165	6,006,660	350,505
Engineering	2,948,526	3,518,526	2,867,265	651,261
Planning and Neighborhood Services	2,672,667	2,672,667	2,266,994	405,673
Police	28,108,910	28,130,802	26,989,073	1,141,729
Fire	17,907,467	18,554,059	18,479,100	74,959
Total Expenditures	83,561,931	86,849,841	81,035,172	5,814,669
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(3,466,468)	(5,482,514)	10,952,922	16,435,436
OTHER FINANCING SOURCES (USES)				
Gain from sale of property	4,000	9,138,052	7,275,743	(1,862,309)
Transfers in	6,015,000	6,024,100	6,024,100	
Transfers (out)	(2,600,000)	(6,570,000)	(6,570,000)	
Total Other Financing Sources (Uses)	3,419,000	8,592,152	6,729,843	(1,862,309)
NET CHANGE IN FUND BALANCE	(\$47,468)	\$3,109,638	17,682,765	\$14,573,127
Adjustment to budgetary basis:				
Encumbrance expenditures			770,334	
Fund balance at beginning of year			54,288,362	
FUND BALANCE AT END OF YEAR			\$72,741,461	

See accompanying notes to financial statements

CITY OF MILPITAS  
HOUSING AUTHORITY  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)  
FOR THE YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	Budgetary Basis	Budget Positive (Negative)
Revenues				
Use of money and property	\$801,000	\$801,000	\$853,545	\$52,545
Other			5,543	5,543
Total Revenues	801,000	801,000	859,088	58,088
Expenditures				
Current:				
General Government:				
Finance	74,246	74,246	45,425	28,821
Non-departmental	152,363	152,363	144,149	8,214
Planning and Neighborhood Services	256,772	256,772	255,132	1,640
Total Expenditures	483,381	483,381	444,706	38,675
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of property			47,944	(47,944)
NET CHANGE IN FUND BALANCE	<u>\$317,619</u>	<u>\$317,619</u>	462,326	<u>\$144,707</u>
Fund balances (deficits) at beginning of year			51,967,677	
FUND BALANCE AT END OF YEAR			<u>\$52,430,003</u>	

See accompanying notes to financial statements

## **MAJOR PROPRIETARY FUNDS**

Proprietary funds account for City operations financed and operated in a manner similar to a private business enterprise. The intent of the City is that the cost of providing goods and services be financed primarily through user charges.

The concept of *major funds* extends to Proprietary Funds. The City has identified the funds below as major proprietary funds.

Financial reporting standards do not provide for the disclosure of budget vs. actual comparisons regarding proprietary funds that are major funds.

### **WATER UTILITY FUND**

Accounts for the provision of water services to residents and businesses of the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, capital improvements, maintenance, billing and collection.

### **SEWER UTILITY FUND**

Accounts for the provision of sewer services to residents and businesses of the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, capital improvements, maintenance, financing, billing and collection.

## **NON-MAJOR INTERNAL SERVICE FUND**

### **EQUIPMENT MANAGEMENT INTERNAL SERVICE FUND**

The Equipment Management Internal Service Fund is used to finance and account for the replacement of equipment used by City departments and the maintenance of computer systems on a cost reimbursement basis.



CITY OF MILPITAS  
 PROPRIETARY FUNDS  
 STATEMENT OF NET POSITION  
 JUNE 30, 2017

	Business-type Activities-Enterprise Funds			Governmental Activities- Equipment Management Internal Service Fund
	Water Utility	Sewer Utility	Totals	
<b>ASSETS</b>				
Current Assets				
Cash and investments available for operations (Note 3)	\$26,290,211	\$37,409,029	\$63,699,240	\$12,242,411
Receivables:				
Accounts	1,555,830	1,051,554	2,607,384	
Due from other governments	1,752		1,752	
Interest	69,396	98,942	168,338	32,607
Prepays, materials, supplies and deposits (Note 1E)	219,388	27,074	246,462	114,970
Total current assets	28,136,577	38,586,599	66,723,176	12,389,988
Noncurrent assets:				
Capital assets and capacity rights (Note 8):				
Land and construction in progress	9,382,748	1,039,587	10,422,335	
Depreciable capital assets, net	39,406,185	78,713,615	118,119,800	2,694,906
Total noncurrent assets	48,788,933	79,753,202	128,542,135	2,694,906
Total assets	76,925,510	118,339,801	195,265,311	15,084,894
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Related to pensions (Note 11D)	494,497	395,340	889,837	
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	2,162,239	190,945	2,353,184	123,036
Accrued payroll	38,855	33,170	72,025	23,541
Interest payable		36,009	36,009	
Refundable deposits	98,089		98,089	49
Accrued vacation (Note 12C)	56,712	56,712	113,424	45,011
Sick leave payable (Note 12C)	16,223	16,223	32,446	4,840
Certificates of Participation (Note 9)		470,000	470,000	
Total current liabilities	2,372,118	803,059	3,175,177	196,477
Non-current liabilities:				
Accrued vacation (Note 12C)	58,626	58,626	117,252	31,559
Sick leave payable (Note 12C)	36,781	36,781	73,562	38,853
Net pension liabilities (Note 11C)	2,306,554	1,844,042	4,150,596	
Certificates of Participation (Note 9)		5,135,000	5,135,000	
Total non-current liabilities	2,401,961	7,074,449	9,476,410	70,412
Total liabilities	4,774,079	7,877,508	12,651,587	266,889
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Related to pensions (Note 11D)	333	266	599	
<b>NET POSITION (Note 10)</b>				
Net investment in capital assets and capacity rights	48,788,933	74,148,202	122,937,135	2,694,906
Restricted for capital projects	19,021,665	21,289,735	40,311,400	
Unrestricted	4,834,997	15,419,430	20,254,427	12,123,099
Total net position	\$72,645,595	\$110,857,367	\$183,502,962	\$14,818,005

See accompanying notes to financial statements

CITY OF MILPITAS  
 PROPRIETARY FUNDS  
 STATEMENT OF REVENUE, EXPENSES  
 AND CHANGES IN FUND NET POSITION  
 FOR THE YEAR ENDED JUNE 30, 2017

	Business-type Activities-Enterprise Funds			Governmental Activities- Equipment Management Internal Service Fund
	Water Utility	Sewer Utility	Totals	
OPERATING REVENUES				
Charges for services	\$26,170,812	\$16,651,740	\$42,822,552	\$3,441,658
Developer contributions		82,220	82,220	
Other operating revenue	147,340	69,384	216,724	3,895
Total Operating Revenues	26,318,152	16,803,344	43,121,496	3,445,553
OPERATING EXPENSES				
Purchased water	15,548,813		15,548,813	
Sewer treatment services		4,545,616	4,545,616	
Personnel services	1,107,805	1,036,796	2,144,601	1,202,197
Services and supplies	1,848,628	985,505	2,834,133	619,142
Depreciation	1,709,198	3,135,669	4,844,867	718,185
Repairs and maintenance	451,690	34,872	486,562	475,839
Total Operating Expenses	20,666,134	9,738,458	30,404,592	3,015,363
Operating Income (Loss)	5,652,018	7,064,886	12,716,904	430,190
NONOPERATING REVENUES (EXPENSES)				
Interest income	(10,106)	(54,968)	(65,074)	(13,199)
Interest expense		(230,336)	(230,336)	(631)
Subventions and grants	88,515		88,515	
Total Nonoperating Revenues (Expenses)	78,409	(285,304)	(206,895)	(13,830)
Income (Loss) Before Contributions and Transfers	5,730,427	6,779,582	12,510,009	416,360
Capital contributions	814,113		814,113	97,675
Capital contributions - connection fees	2,183,279	2,754,156	4,937,435	
Transfers in (Note 4B)	1,343,207	18,207	1,361,414	317,978
Transfers (out) (Note 4B)	(2,983,000)	(2,116,000)	(5,099,000)	(83,204)
Change in net position	7,088,026	7,435,945	14,523,971	748,809
Net position-beginning	65,557,569	103,421,422	168,978,991	14,069,196
Net position-ending	\$72,645,595	\$110,857,367	\$183,502,962	\$14,818,005

See accompanying notes to financial statements

CITY OF MILPITAS  
PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2017

	Business-type Activities-Enterprise Funds			Governmental Activities- Equipment Management Internal Service Fund
	Water Utility	Sewer Utility	Totals	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	\$25,960,048	\$16,791,695	\$42,751,743	\$3,447,595
Payments to suppliers	(17,352,447)	(5,533,533)	(22,885,980)	(1,039,315)
Payments to employees for salaries and benefits	(2,924,758)	(2,339,107)	(5,263,865)	(1,200,796)
Net cash provided by operating activities	5,682,843	8,919,055	14,601,898	1,207,484
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Subventions and grants	88,515		88,515	
Transfers in	1,343,207	18,207	1,361,414	317,978
Transfers (out)	(2,983,000)	(2,116,000)	(5,099,000)	(83,204)
Cash Flows from Noncapital Financing Activities	(1,551,278)	(2,097,793)	(3,649,071)	234,774
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>				
Principal paid on long-term debt		(450,000)	(450,000)	(94,222)
Interest paid		(233,192)	(233,192)	(3,030)
Proceeds from sale of capital assets				29,046
Acquisition of capital assets	(1,206,692)	(6,722,949)	(7,929,641)	(417,462)
Capital contributions - connection fees	2,183,279	2,754,156	4,937,435	
Cash Flows from Capital and Related Financing Activities	976,587	(4,651,985)	(3,675,398)	(485,668)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest paid	(1,701)	(23,933)	(25,634)	(4,148)
Cash Flows from Investing Activities	(1,701)	(23,933)	(25,634)	(4,148)
Net increase (decrease) in cash and cash equivalents	5,106,451	2,145,344	7,251,795	952,442
Cash and investments at beginning of period	21,183,760	35,263,685	56,447,445	11,289,969
Cash and investments at end of period	\$26,290,211	\$37,409,029	\$63,699,240	\$12,242,411
Reconciliation of operating income to net cash provided by operating activities:				
Operating income (loss)	\$5,652,018	\$7,064,886	\$12,716,904	\$430,190
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	1,709,198	3,135,669	4,844,867	718,185
Change in assets and liabilities:				
Receivables, net	(325,351)	(11,649)	(337,000)	2,042
Materials, supplies and deposits	123,224	17,783	141,007	(6,142)
Accrued payroll	(58,356)	(55,221)	(113,577)	
Accounts and other payables	220,832	(105,198)	115,634	63,209
Due to retirement system	(1,638,722)	(1,127,215)	(2,765,937)	
Net cash provided by operating activities	\$5,682,843	\$8,919,055	\$14,601,898	\$1,207,484
<b>NONCASH TRANSACTIONS:</b>				
Retirement of capital assets, net				(\$29,046)
Contributions and transfers of capital assets, net	\$814,113		\$814,113	\$97,675

See accompanying notes to financial statements





## **FIDUCIARY FUNDS**

### **FIDUCIARY FUNDS**

These funds are used to account for assets held by the City as an agent for individuals, private organizations, and other governments. The financial activities of these funds are excluded from the Government-wide financial statements, but are presented in separate Fiduciary Fund financial statements.

### **SUCCESSOR AGENCY TO THE MILPITAS REDEVELOPMENT AGENCY PRIVATE-PURPOSE TRUST FUND**

The Successor Agency to the Milpitas Redevelopment Agency Private-Purpose Trust Fund accounts for the accumulation of resources to be used to make payments that are on the Recognized Obligation Payment Schedule and to dispose of assets and property of the former Redevelopment Agency for the benefit of the taxing agencies.

### **AGENCY FUNDS**

Agency funds are used to account for assets held by the City as an agent for individuals, private organizations, and other governments.



CITY OF MILPITAS  
FIDUCIARY FUNDS  
STATEMENT OF FIDUCIARY NET POSITION  
JUNE 30, 2017

	Successor Agency to the Milpitas Redevelopment Agency Private-purpose Trust Fund	Agency Funds
	<u>                    </u>	<u>                    </u>
ASSETS		
Cash and investments (Note 3)	\$9,276,876	\$4,695,799
Interest receivable		8,531
Property held for resale (Note 16B)	<u>315,000</u>	<u>                    </u>
Total Assets	<u>9,591,876</u>	<u><u>\$4,704,330</u></u>
LIABILITIES		
Refundable deposits		\$1,289,265
Due to Local Improvement Districts		3,415,065
Accounts payable	54,235	
Interest payable	1,822,333	
Long-term obligations (Note 16D):		
Due in one year	8,876,607	
Due in more than one year	<u>140,579,488</u>	<u>                    </u>
Total Liabilities	<u>151,332,663</u>	<u><u>\$4,704,330</u></u>
NET POSITION (DEFICIT)		
Held in trust for other governments	<u><u>(\$141,740,787)</u></u>	

See accompanying notes to financial statements

CITY OF MILPITAS  
FIDUCIARY FUNDS  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2017

	Successor Agency to the Milpitas Redevelopment Agency Private-purpose Trust Fund
Additions:	
Property taxes	\$16,959,561
Gain from sale of property (Note 16B)	3,571,759
Use of money and property	<u>31,054</u>
Total additions	<u>20,562,374</u>
Deductions:	
General and administrative	163,443
Remittance of land sale proceeds to County	10,783,746
Estimated reduction in value of property held for resale (Note 16B)	5,455,000
Debt Service:	
Interest and fees	<u>6,635,301</u>
Total deductions	<u>23,037,490</u>
Net change in net position	(2,475,116)
Net position (deficit) - beginning	<u>(139,265,671)</u>
Net position (deficit) - ending	<u><u>(\$141,740,787)</u></u>

See accompanying notes to financial statements

## **NOTES TO FINANCIAL STATEMENTS**



**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Milpitas was incorporated as a general law city on January 26, 1954. The City operates under the Council-Manager form of government and provides the following services: public safety; police; fire and building inspection; engineering; public works; water; sewer; sanitation; recreation services; building and safety; planning and zoning; general administration services, redevelopment and economic development.

The financial statements and accounting policies of the City conform with generally accepted accounting principles applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for governmental accounting and financial reporting principles. Significant accounting policies are summarized below:

**A. *Reporting Entity***

The accompanying basic financial statements present the financial activity of the City, which is the primary government presented, along with the financial activities of its component units, which are entities for which the City is financially accountable. Although they are separate legal entities, *blended* component units are in substance part of the City's operations and are reported as an integral part of the City's financial statements. Each discretely presented component unit, on the other hand, is reported in a separate column in the basic financial statements to emphasize it is legally separate from the government.

**PRIMARY GOVERNMENT**

The financial statements of the primary government of the City of Milpitas include the activities of the City as well as the Milpitas Public Financing Authority, the Milpitas Economic Development Corporation, the City of Milpitas Housing Authority and the Milpitas Municipal Financing Authority, all of which are controlled by and dependent on the City. While these are separate legal entities, their financial activities are integral to those of the City. Their financial activities have been aggregated and merged (termed "blended") with those of the primary government of the City in the accompanying financial statements.

**Blended Component Units**

The Milpitas Public Financing Authority is a separate government entity whose purpose is to assist with the financing or refinancing of certain public capital improvements within the City. The Authority has the power to purchase bonds issued by any local agency at public or negotiated sale and may sell such bonds to public or private purchasers at public or negotiated sale. The Authority is controlled by the City and has the same governing body as the City, which also performs all accounting and administrative functions for the Authority. The financial activities of the Authority are included in the Sewer Utility Enterprise Fund.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The Milpitas Economic Development Corporation, formed in February 2011, is a California nonprofit public benefit Corporation formed by the City and the former Milpitas Redevelopment Agency under the laws of the State of California. As discussed in Note 16, the Redevelopment Agency was dissolved effective January 31, 2012. The Corporation was organized for the purpose of encouraging and facilitating the City's economic development, affordable housing and other community programs. The Corporation is governed by a board of directors consisting of the members of the City Council. Under an operating agreement with the Redevelopment Agency, the Corporation received funding from the Agency and will use the funds for redevelopment purposes consistent with the California Community Redevelopment Law, Health and Safety Code Section 33000 and to implement and carry out the Redevelopment Plans. The Corporation also entered into a Service Agreement with the City under which the City will perform the necessary services on an independent contractor basis to eliminate blight, provide affordable housing, improve the public realm, facilitate public and private developments, stimulate economic development, and create jobs. The Corporation is controlled by the City and has the same governing body as the City, which also performs all accounting and administrative functions for the Corporation. The Corporation became inactive as of June 30, 2015.

The City of Milpitas Housing Authority, formed in February 2011, is a separate government entity whose purpose is to assist with the housing for the City's low and moderate income residents. The Housing Authority is controlled by the City and has the same governing body as the City, which also performs all accounting and administrative functions for the Housing Authority. The Financial activities of the Housing Authority are included in the Housing Authority Special Revenue Fund.

The Milpitas Municipal Financing Authority, formed in March 2016, is a separate government entity whose purpose is to assist with the financing and refinancing of public programs, projects and capital improvements for the benefit of the City and the Housing Authority. The Municipal Financing Authority has the power to purchase bonds issued by any local agency at public or negotiated sale and may sell such bonds to public or private purchasers at public or negotiated sale. The Municipal Financing Authority is controlled by the City and the Housing Authority and has the same governing body as the City, which also performs all accounting and administrative functions for the Municipal Financing Authority. As of June 30, 2017, no financial activities have been undertaken by the Municipal Financing Authority.

Separate financial statements are not issued for the Milpitas Public Financing Authority, Milpitas Economic Development Corporation, City of Milpitas Housing Authority or Milpitas Municipal Financing Authority.

**Discretely Presented Component Unit**

Terrace Gardens, Inc. is a non-profit public benefit corporation organized in September 1986 for the purpose of developing and managing the operations of a residential complex known as Terrace Gardens, which is located in the City of Milpitas and is dedicated to the needs of elderly persons. The former Milpitas Redevelopment Agency funded the construction of Terrace Gardens. City Council can appoint a voting majority of the governing board and approves the annual budget. The City Council exercises control over the Board of Terrace Gardens. Therefore, the financial activities of Terrace Gardens, Inc. as of and for the year ended December 31, 2016 are discretely presented in the Terrace Gardens Inc. Component Unit column of the Statement of Net Position and the Statement of Activities.



**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Financial statements for Terrace Gardens, Inc. may be obtained from Terrace Gardens, Inc., 186 Beresford Court, Milpitas, CA 95035.

**B. Basis of Presentation**

The City's Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America.

These Standards require that the financial statements described below be presented.

**Government-wide Statements:** The Statement of Net Position and the Statement of Activities display information about the primary government, the City and its blended and discretely presented component units. These statements include the financial activities of the overall City government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities, except for interfund services provided and used, which are not eliminated in the process of consolidation. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including franchise fees that are based on gross receipts and all taxes, are presented as general revenues.

**Fund Financial Statements:** The fund financial statements provide information about the City's funds, including fiduciary funds and blended component units. Separate statements for each fund category-*governmental*, *proprietary*, and *fiduciary*-are presented. The emphasis of fund financial statements is on major individual governmental and enterprise funds, each of which is displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund *operating* revenues and expenses, such as charges for services and the related costs, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. *Nonoperating* revenues and expenses, such as subsidies, investment earnings and any related costs, result from nonexchange transactions or ancillary activities.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Major Funds**

Major funds are defined as funds that have either assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. The General Fund is always a major fund. The City may also select other funds it believes should be presented as major funds.

The City reported the following major governmental funds in the accompanying financial statements:

**General Fund** - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The major revenue sources for this Fund are sales taxes, property taxes, hotel taxes, unrestricted revenues from the State, fines and forfeitures and interest income. Expenditures are incurred for public safety, public works, recreation services and the other governmental services described above.

**Housing Authority Fund** – Established to plan and address the housing needs of the City and to act as the Housing Successor of the former Redevelopment Agency. The main source of the revenue for this fund is the repayment of loans restricted for housing activities.

**Street Improvement Fund** – Established to account for the construction and maintenance of the street system in Milpitas. Financing is provided through State and Federal grants.

**Transit Area Impact Fee Fund** – Established to account for the capital projects in the transit area. A special transit area impact fee is imposed on developments to provide financing.

**General Government Capital Projects Fund** – Established to account for the construction and maintenance of general government projects. Financing is provided by the General Fund.

The City reported all its enterprise funds as major funds in the accompanying financial statements:

**Water Utility Fund** – Accounts for the provision of water services to residents and businesses of the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, capital improvements, maintenance, billing and collection.

**Sewer Utility Fund** – Accounts for the provision of sewer services to residents and businesses of the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, capital improvements, maintenance, financing, and billing and collection.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The City also reports the following fund types:

**Internal Service Fund** – The Equipment Management Internal Service Fund is used to finance and account for the replacement of equipment used by City departments and the maintenance of the online permit development system on a cost reimbursement basis.

**Fiduciary Funds** – Trust funds account for assets held by the City as an agent for various functions. The Successor Agency to the Milpitas Redevelopment Agency Private-Purpose Trust Fund accounts for the accumulation of resources to be used for payments at appropriate amounts and times in the future. This fund accounts for winding down the affairs of the former Milpitas Redevelopment Agency and makes payments on the Enforceable Obligation Schedule and disposes of assets and property of the former Redevelopment Agency for the benefit of taxing agencies.

Agency funds are used to account for assets held by the City as an agent for negotiated employee benefits, the Senior Advisory Commission, and Local Improvement Districts. The financial activities of these funds are excluded from the City-wide financial statements, but are presented in separate Fiduciary Fund financial statements.

**D. Basis of Accounting**

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable and available*. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within forty-five days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and accumulated unpaid vacation, sick pay and other employee benefit amounts, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as *other financing sources*.

Non-exchange transactions, in which the City gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants, entitlements, and donations. On the accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Other revenues susceptible to accrual are sales taxes, significant building permit fees, and interest revenue. Forfeitures, licenses, other permits and miscellaneous revenue are not susceptible to accrual because they are not measurable until received in cash. Grant funding received in advance of the related expenditure is accounted for as unearned revenue.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Grant revenues are recognized in the fiscal year in which all eligibility requirements are met. Under the terms of grant agreements, the City may fund certain programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net position may be available to finance program expenditures. The City's policy is to first apply restricted grant resources to such programs, followed by unrestricted resources if necessary.

**E. *Prepays, Materials, Supplies and Deposits***

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Materials and supplies are valued at cost on a first-in first-out basis. Supplies in the enterprise and internal funds consist principally of materials and supplies for utility and internal operations. Materials and supplies of the governmental funds consist of expendable supplies and materials held for consumption. The cost is recorded as an expense or expenditure in the funds at the time individual inventory items are consumed.

Prepays, materials, supplies and deposits in governmental funds are equally offset by nonspendable fund balance which indicates that they do not constitute available spendable resources even though they are a component of net current assets.

**F. *Deferred Inflows and Deferred Outflows of Resources***

In addition to assets, the statement of net position or balance sheet reports a separate section for deferred outflows of resources. This separate net statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has pension-related deferred outflows of resources arising from certain changes in the collective net pension liability.

In addition to liabilities, the statement of net position or balance sheet reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has deferred inflows of resources arising from certain changes in the collective net pension liability. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**G. *Property Tax***

Santa Clara County assesses properties and bills, collects, and distributes property taxes to the City. The County remits the entire amount levied and handles all delinquencies, retaining interest and penalties. Secured and unsecured property taxes are levied on January 1.

Secured property tax is due in two installments, on November 1 and March 1, and becomes a lien on those dates. It becomes delinquent on December 10 and April 10, respectively. Unsecured property tax is due on July 1, and becomes delinquent on August 31. Collection of delinquent accounts is the responsibility of the County, which retains all penalties.

The term “unsecured” refers to taxes on personal property other than real estate, land and buildings. These taxes are secured by liens on the property being taxed. Property tax revenues are recognized by the City in the fiscal year they are assessed, provided they become available as defined above.

**H. *Revenue Recognition for Water Utility and Sewer Utility***

Revenues are recognized based on cycle billings rendered to customers. Revenues for services provided but not billed at the end of a fiscal period are not material and are not accrued.

**I. *Fair Value Measurements***

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs are inputs – other than quoted prices included within level 1 – that are observable for an asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for an asset or liability.

If the fair value of an asset or liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

**J. *Use of Estimates***

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING**

**A. *Budgets and Budgetary Accounting***

The City adopts an annual operating budget on or before June 30 of the previous fiscal year. The operating budget takes the form of a one year financial plan which is adopted in its entirety by the City Council by resolution. Because Milpitas is a general law city, it is not subject to a budgetary process prescribed by statute or charter.

The operating budget is subject to supplemental appropriations throughout its term in order to provide flexibility to meet changing needs and conditions. The City Manager's budget control remains at the level of department and/or project within any one fund. The City Manager may approve supplemental appropriations in the General Fund providing the total increase does not exceed 1% of the original total General Fund budget subject to the following. All additional appropriations that require the use of reserves must be approved by City Council. Expenditures cannot exceed the appropriated budget at the department level without City Council approval.

The City Manager is authorized to amend appropriations within the various departments and projects within a fund, provided that the amount of the amended appropriation is \$20,000 or less. Interfund transfers or transfers of an appropriation amount within a fund in which any single instance exceed \$20,000 require prior approval of the City Council.

Budgeted amounts are as originally adopted, or as amended by the City Council. Individual amendments were not material in relation to the original appropriations which were amended.

**B. *Adjustments to GAAP Basis from Budgetary Basis***

City budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) except that encumbrances are considered budgetary expenditures in the year of the commitment to purchase, and capital projects expenditures are budgeted on a project length basis rather than a fiscal year. The effects of these differences are shown as encumbrance adjustments, expenditures capitalized for GAAP purposes and capital outlay in the budget and actual statements. The Street Improvement, Park Improvement, General Government Project, Storm Drain Development and Transit Area Impact Fee Capital Projects Funds are budgeted on a project length basis and therefore are not comparable on an annual basis.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 3 - CASH AND INVESTMENTS**

The City pools cash from all sources and all funds except Cash and Investments held by Trustees, certain investments of the Successor Agency to the Milpitas Redevelopment Agency, and Terrace Gardens, Inc. so that it can be invested at the maximum yield consistent with safety and liquidity, while individual funds can make expenditures at any time.

**A. Policies**

The City invests in individual investments and in investment pools. Individual investments are evidenced by specific identifiable *securities instruments*, or by an electronic entry registering the owner in the records of the institution issuing the security, called the *book entry* system. In order to increase security, the City employs the Trust Department of a bank as the custodian of certain City managed investments, regardless of their form.

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the City's cash on deposit, or first trust deed mortgage notes with a market value of 150% of the deposit, as collateral for these deposits. Under California Law this collateral is held in a separate investment pool by another institution in the City's name and places the City ahead of general creditors of the institution.

The City's investments are carried at fair value, as required by generally accepted accounting principles. The City adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

**B. Classification**

Cash and investments are classified in the financial statements as shown below, based on whether or not their use is restricted under the terms of City debt instruments or other agreements.

Cash and investments available for operations	<u>\$245,636,949</u>
Total Primary Government cash and investments	<u>245,636,949</u>
Cash and investments available for operations	110,470
Restricted investments	<u>1,538,926</u>
Total Component Unit cash and investments	<u>1,649,396</u>
Cash and investments in Fiduciary Funds (separate statement)	<u>13,972,675</u>
Total cash and investments	<u><u>\$261,259,020</u></u>

Cash and Investments Available for Operations is used in preparing proprietary fund statements of cash flows because these assets are highly liquid and are expended to liquidate liabilities arising during the year.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 3 - CASH AND INVESTMENTS (Continued)**

**C. Investments Authorized by the California Government Code and the City's Investment Policy**

The City's Investment Policy, updated or adopted on an annual basis, and the California Government Code allow the City to invest in the following, provided the credit ratings of the issuers are acceptable to the City; and approved percentages and maturities are not exceeded. The table below also identifies certain provisions of the California Government Code or the City's Investment Policy where it is more restrictive:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
Repurchase Agreements	1 Year		100%	No Limit
State of California Local Agency Investment Fund (LAIF Pool)	Upon Demand		100%	\$65,000,000 per account
U. S. Treasury Bonds, Notes and Bills	5 Years		100%	No Limit
Federal Agency Obligations	5 Years		100%	No Limit
Bankers Acceptances	180 Days		20%	\$5 million or 10%
Commercial Paper	270 Days	AA	15%	(A)
Negotiable Certificates of Deposit	5 Years		30%	No Limit
Time Certificates of Deposit – Banks or Savings and Loans	2 Years		10%	No Limit
Medium Term Corporate Notes	5 Years	AA	30%	(A)
Money Market and Mutual Funds of Government Securities	Upon Demand	Top Rating Category	20%	10%
Security Swaps	N/A		100%	No Limit

- (A) Eligible Commercial Paper and Medium Term Corporate Notes combined may not represent more than 10% of the outstanding paper of an issuing corporation.



**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 3 - CASH AND INVESTMENTS (Continued)**

***D. Investments Authorized by Debt Agreements***

The City must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if the City fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with City resolutions, bond indentures or State statutes. The table below identifies the investment types that are authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
U. S. Treasury Bonds, Notes and Bills	5 Years		100%	No Limit
Federal Agency Obligations	5 Years		100%	No Limit
Time Certificates of Deposit – Banks or Savings and Loans	1-2 Years		10%	No Limit
Bankers Acceptances	180 Days	A	20%	\$5,000,000 or 10%
Commercial Paper	270 Days	AA, A1	15%	(A)
Negotiable Certificates of Deposit	5 Years		30%	No Limit
Repurchase Agreements	1 Year		100%	No Limit
Medium Term Corporate Notes	5 Years	AA	30%	(A)
State of California Local Agency Investment Fund (LAIF Pool)	Upon Demand		No Limit	\$65,000,000 per account
Money Market and Mutual Funds	Upon Demand	Aaa/AAm	20%	10%
California Asset Management Program (CAMP)	Upon Demand		No Limit	No Limit

(A) The combined total of commercial paper and medium term corporate notes may not represent more than 10% of the outstanding paper and notes of an issuing corporation.

***E. Investments Authorized for Terrace Gardens Inc.***

Terrace Gardens, Inc. investments conform with the California Government Code.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 3 - CASH AND INVESTMENTS (Continued)**

**F. Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City generally manages its interest rate risk by holding investments to maturity.

Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity or earliest call date:

Investment Type	12 Months or less	13 to 24 Months	25 to 60 Months	Total	Percentage of Portfolio
<b>City and Successor Agency:</b>					
Federal Agency Obligations	\$21,979,080	\$31,922,401	\$56,285,981	\$110,187,462	42.18%
Medium Term Corporate Notes	8,985,370	5,508,790	1,997,320	16,491,480	6.31%
U.S. Treasury Notes	15,980,381	5,979,340	9,946,207	31,905,928	12.21%
California Local Agency Investment Fund	86,108,686			86,108,686	32.96%
Mutual Funds (U.S. Securities)	10,686,852			10,686,852	4.09%
Negotiable Certificates of Deposit	1,999,041	749,234	500,260	3,248,535	1.24%
<b>Terrace Gardens, Inc.:</b>					
Nonnegotiable Certificates of Deposit	1,066,325			1,066,325	0.41%
Total Investments	<u>\$146,805,735</u>	<u>\$44,159,765</u>	<u>\$68,729,768</u>	259,695,268	
<b>Demand Deposits - City of Milpitas</b>				980,681	0.38%
<b>Demand Deposits - Terrace Gardens</b>				583,071	0.22%
Total Cash and Investments				<u>\$261,259,020</u>	<u>100.00%</u>

The City is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. At June 30, 2017 these investments matured in an average of 194 days.

Mutual funds are available for withdrawal on demand and at June 30, 2017 matured in an average of 30 days.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 3 - CASH AND INVESTMENTS (Continued)**

**G. Credit Risk**

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of June 30, 2017 for each of the Primary Government's investment types as provided by Standard and Poor's investment rating system:

Investment Type	AAA/ AAAm	AA+/AA/AA-	A+/A/A-	BBB+	Total
Federal Agency Obligations		\$110,187,462			\$110,187,462
Medium Term Corporate Notes	\$5,494,240	10,997,240			16,491,480
Mutual Funds (U.S. Securities)	10,686,852				10,686,852
Negotiable Certificates of Deposit		498,364	\$1,500,650	\$499,952	2,498,966
Totals	<u>\$16,181,092</u>	<u>\$121,683,066</u>	<u>\$1,500,650</u>	<u>\$499,952</u>	<u>139,864,760</u>
<i>Not rated:</i>					
California Local Agency Investment Fund					86,108,686
Negotiable Certificates of Deposit					749,569
<i>Exempt from credit rate disclosure:</i>					
U.S. Treasury Notes					31,905,928
Total Investments					<u>\$258,628,943</u>

All the rated and unrated negotiable certificates of deposit were fully insured by Federal Deposit Insurance at June 30, 2017.

Terrace Gardens, Inc. invests only in Nonnegotiable Certificates of Deposit. At June 30, 2017, all of Terrace Gardens' Nonnegotiable Certificates of Deposit totaling \$1,066,325 were fully insured by Federal Deposit Insurance.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 3 - CASH AND INVESTMENTS (Continued)**

**H. Fair Value Hierarchy**

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The following is a summary of the fair value hierarchy of the City's investments as of June 30, 2017:

	Level 1	Level 2	Total
<i>Investments by Fair Value Level:</i>			
Federal Agency Obligations		\$110,187,462	\$110,187,462
Medium Term Corporate Notes		16,491,480	16,491,480
U.S. Treasury Notes	\$31,905,928		31,905,928
Negotiable Certificates of Deposit		3,248,535	3,248,535
	<u>\$31,905,928</u>	<u>\$129,927,477</u>	<u>161,833,405</u>
<i>Investments Measured at Amortized Cost:</i>			
Mutual Funds (U.S. Securities)			10,686,852
<i>Investments Measured at Cost:</i>			
<i>Terrace Gardens, Inc.</i>			
Nonnegotiable Certificates of Deposit			1,066,325
<i>Investments Exempt from Fair Value Hierarchy:</i>			
California Local Agency Investment Fund			<u>86,108,686</u>
Total Investments			<u>\$259,695,268</u>

U.S. Treasury Notes totaling \$31.9 million classified in Level 1 of the fair value hierarchy are valued using quoted prices in active markets. Federal Agency Obligations totaling \$110.2 million, Medium Term Corporate Notes of \$16.5 million and Negotiable Certificates of Deposit of \$3.2 million, classified in Level 2 of the fair value hierarchy, are valued using pricing techniques of matrix pricing or market corroborated pricing, with inputs such as yield curves or indices. These prices are obtained from various pricing sources by our custodian bank.

**I. Significant Investments**

Investments in the securities of any individual issuers, other than U. S. Treasury securities, mutual funds and the California Local Agency Investment Fund, that represent 5% or more of total Entity-wide investments are as follows at June 30, 2017:

Issuer	Investment Type	Amount
Federal Farm Credit Bank	Federal Agency Obligations	\$29,952,332
Federal Home Loan Bank	Federal Agency Obligations	44,900,877
Federal National Mortgage Association	Federal Agency Obligations	13,891,070
Federal Home Loan Mortgage Corporation	Federal Agency Obligations	21,443,183

<p style="text-align: center;"><b>CITY OF MILPITAS</b>  <b>Notes to Basic Financial Statements</b>  <b>For the Year Ended June 30, 2017</b></p>
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<p><b>NOTE 4 - INTERFUND TRANSACTIONS</b></p>
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**A. *Current Interfund Balances***

Current interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year. Current inter-fund balances are as follows:

Due from Fund	Due to Fund	Amount
Non-Major Governmental Fund:		
Special Revenue Fund	General Fund	\$7,151

**B. *Transfers Between Funds***

With Council approval, resources may be transferred from one City fund to another. The purpose of the majority of transfers is to reimburse a fund which has made an expenditure on behalf of another fund. Less often, a transfer may be made to open or close a fund.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 4 - INTERFUND TRANSACTIONS (Continued)**

Transfers between funds during the fiscal year ended June 30, 2017 were as follows:

Fund Receiving Transfers	Fund Making Transfers	Amount Transferred
<b>Major Funds:</b>		
General Fund	General Government Capital Projects Fund	\$9,100 (A)
General Fund	General Government Capital Projects Fund	600,000 (B)
General Fund	Solid Waste Reduction and Services Special Revenue Fund	282,000 (A)
General Fund	Community Facilities District Special Revenue Fund	859,000 (A)
General Fund	Water Utility Enterprise Fund	2,633,000 (A)
General Fund	Sewer Utility Enterprise Fund	1,641,000 (A)
Street Improvement Capital Projects Fund	General Fund	3,550,000 (C)
Street Improvement Capital Projects Fund	Transit Area Impact Fee Capital Projects Fund	40,000 (C)
Street Improvement Capital Projects Fund	Gas Tax Special Revenue Fund	2,950,000 (C)
Street Improvement Capital Projects Fund	Water Utility Enterprise Fund	250,000 (C)
Street Improvement Capital Projects Fund	Sewer Utility Enterprise Fund	250,000 (C)
Transit Area Impact Fee Capital Projects Fund	Park Improvement Capital Projects Fund	150,000 (C)
General Government Capital Projects Fund	General Fund	2,220,000 (C)
General Government Capital Projects Fund	Solid Waste Reduction and Services Special Revenue Fund	200,000 (C)
General Government Capital Projects Fund	Lighting and Landscape Maintenance District Special Revenue Fund	93,256 (C)
General Government Capital Projects Fund	Community Planning Special Revenue Fund	200,000 (C)
General Government Capital Projects Fund	Park Improvement Capital Projects Fund	300,000 (C)
General Government Capital Projects Fund	Storm Drain Development Capital Projects Fund	150,000 (B)
General Government Capital Projects Fund	Storm Drain Development Capital Projects Fund	14,838 (B)
General Government Capital Projects Fund	Water Utility Enterprise Fund	100,000 (C)
General Government Capital Projects Fund	Sewer Utility Enterprise Fund	100,000 (C)
General Government Capital Projects Fund	Equipment Management Internal Service Fund	83,204 (C)
Water Utility Enterprise Fund	Street Improvement Capital Projects Fund	18,207 (B)
Water Utility Enterprise Fund	Transit Area Impact Fee Capital Projects Fund	1,200,000 (C)
Water Utility Enterprise Fund	Sewer Utility Enterprise Fund	125,000 (C)
Sewer Utility Enterprise Fund	Street Improvement Capital Projects Fund	18,207 (B)
<b>Non-Major Funds:</b>		
Park Improvement Capital Projects Fund	Transit Area Impact Fee Fund	400,000 (C)
Storm Drain Development Capital Projects Fund	General Fund	500,000 (C)
Storm Drain Development Capital Projects Fund	General Government Capital Projects Fund	830,000 (C)
Equipment Management Internal Service Fund	General Fund	300,000 (A)
Equipment Management Internal Service Fund	General Government Capital Projects Fund	17,978 (B)
Total Interfund Transfers		<u>\$20,084,790</u>

(A) Transfer for operating costs

(B) To return unexpended project funds

(C) To fund capital projects

**C. Long-Term Interfund Advances**

In June 2014, the General Fund advanced \$5,000,000 to the Transit Area Development Impact Fee Capital Projects Fund. The advance will be repaid when the fund collects sufficient impact fees from developers. The advance bears simple interest at the monthly investment return of the City's portfolio. At June 30, 2017, the balance of the advance was \$5,119,750.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 5 - LOANS RECEIVABLE**

The City and former Redevelopment Agency entered into the loan programs below to improve the quality of housing and to increase the availability of affordable housing, and for other purposes. With the dissolution of the Redevelopment Agency as discussed in Note 16, the City agreed to become the successor to the Redevelopment Agency's housing activities and as a result the City of Milpitas Housing Authority assumed the loans receivable of the Redevelopment Agency's Housing Reserve Special Revenue Fund as of February 1, 2012.

These loans were comprised of the following at June 30, 2017:

General Fund Loan:

Milpitas Unified School District	\$10,335,400
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Housing and Community Development Loans:

Rehabilitation Loans	3,470,120
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Housing Authority Loans:

Milpitas Housing Associates	4,541,074
Parc Metropolitan Housing Development	106,805
Parc North Associates LLC	777,488
Mid-Peninsula Milpitas Affordable Housing Associates	16,850,924
KB Home South Bay Inc.	1,372,900
Western Pacific Housing Inc.	1,848,809
Shapell Industries	800,000
MIL Aspen Associates, Ltd.	2,994,366
 Total Housing Authority Loans Receivable	 29,292,366
 Total Loans Receivable	 \$43,097,886

**A. Rehabilitation Loans**

The City administers a housing rehabilitation program using Housing and Community Development Act funds. Under the Program, individuals with incomes below a certain level are eligible to receive low or no interest loans, secured by deeds of trust, for construction work on their homes. At June 30, 2017 the City had outstanding rehabilitation loans of \$3,470,120 in its Housing and Community Development Special Revenue Fund. During the year ended June 30, 2017, the City received \$31,818 from all participants, wrote off loans totaling \$41,456 and made new loans totaling \$152,908.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 5 - LOANS RECEIVABLE (Continued)**

**B. *Milpitas Housing Associates Loan***

In fiscal 1997, the former Redevelopment Agency loaned the Milpitas Housing Associates, a partnership of Bridge Housing and a developer, \$3,000,000 to assist in the financing of the construction of a 306 unit apartment complex. Fifty percent of the units were made available to very low and low income tenants. The Loan bears interest at the rate of 5.45% per year, compounded annually and is repayable in 2040, subject to certain conditions. The loan is secured by a subordinated deed of trust in the third position on the property. During fiscal year 2017, total payments of \$402,148 were received, interest of \$243,200 was accrued, and as of June 30, 2017, principal and accrued interest outstanding totaled \$4,541,074.

**C. *Parc Metropolitan Housing Development Loans***

The Housing Authority provides loans to eligible low-income families for the purchase of townhome units at the Parc Metropolitan Housing Development. During the year ended June 30, 2017, the Housing Authority received principal payments of \$4,894 and as of June 30, 2017, there were \$106,805 in loans outstanding.

**D. *Parc North Associates LLC Loan***

In September 2003, the former Redevelopment Agency entered into an Owner Participation Agreement with Parc North Associates LLC for the development of 285 town homes and condominiums. Eighteen of the units were made available to very low income households, six of the units were made available to low income households, and thirty-four units were made available to moderate income households. In exchange, the Agency provided a grant of \$1,823,480 to the Developer for permits, fees, and infrastructure, along with silent-second loans to eligible low-income families for the purchase of these town homes and condominium. Interest of 5% begins on the 61<sup>st</sup> month after the recordation of the deeds of trust and continues until the loans are paid in full. During fiscal year 2017, principal of \$45,281 was paid and as of June 30, 2017, there were \$777,488 of such loans outstanding.

**E. *Mid-Peninsula Milpitas Affordable Housing Associates***

In December 2005, the former Redevelopment Agency entered into a Disposition and Development Agreement with Mid Peninsula Milpitas Affordable Housing Associates for the development of a 103-unit senior housing project with long-term affordability to extremely low and very low income seniors. Under the terms of the Agreement, the Agency provided a grant of \$1 million to the Developer and will provide a development loan up to \$14.6 million to the Developer. No interest is accrued on the first \$5 million of loan proceeds. The remaining \$9.6 million bears simple interest of 3.00% annually. Repayment of interest and principal is payable from surplus operating cash subject to certain conditions as defined in the Agreement, and unpaid principal and accrued interest is due in December 2062. The loan is secured by a second deed of trust on the property. Construction began in fiscal year 2006 and was completed in December 2008. During fiscal year 2017, \$69,613 was paid, interest of \$288,000 was accrued, and as of June 30, 2017, principal and accrued interest outstanding totaled \$16,850,924.



**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 5 - LOANS RECEIVABLE (Continued)**

**F. *KB Home South Bay Inc. Loans***

In January 2005, the former Redevelopment Agency entered into a Disposition and Development Agreement with KB Home South Bay Inc. for the development of a public park and approximately 700 housing units on the two parcels (Parcels C and D). In addition, the former Redevelopment Agency would provide a total of \$4,250,000 of silent-second mortgages to eighty-five moderate income households on Parcel C, approximately \$5,000,000 of subsidies to twenty-five moderate income households on Parcel D. The silent-second mortgages are not due for 45 years or upon the sale, renting or leasing of the property. Interest begins on the 37<sup>th</sup> month after the recordation of the Deed of Trust and continues until the loans are paid in full.

Due to changes in the housing market and stricter lending requirements which had created unforeseen challenges in finding qualified buyers for the affordable units, the former Redevelopment Agency amended the Agreement in February 2009 to establish an in-lieu housing payment of \$1,702,000 to remove the affordable restrictions on 46 of the 67 remaining unsold affordable units (\$37,000 for each unit). This amount was paid in equal parts to the Agency and to the County. In addition, the commitment for silent-second mortgages was reduced \$2,300,000 to \$1,950,000, and the total number of affordable units was reduced from 110 to 64.

During fiscal year 2017, \$100,000 was paid and a \$50,000 loan was written off. As of June 30, 2017, there were \$1,372,900 of loans to Parcel C households outstanding. As of June 30, 2017 subsidies totaling \$4,707,542 had been provided.

**G. *Western Pacific Housing Inc., Loans***

In August 2005, the former Redevelopment Agency entered into an Owner Participation Agreement with Fairfield Development, LLC for the development of a 464- unit residential apartment project called Centria, of which 93 units will be deed-restricted for very low- to moderate- income households. In November 2005, the project was purchased by Western Pacific Housing Inc. and obligations of the Owner Participation Agreement were assigned to Western Pacific Housing Inc. The former Redevelopment Agency will provide a grant of \$379,480 for permits, fees, and infrastructure. The former Redevelopment Agency also will provide a total of \$770,000 for silent-second down payment assistance loans for the 22 very-low income units. The loans are not due for 25 years or upon the sale, renting or leasing of the property. Interest will begin on the 61<sup>st</sup> month after the recordation of the Deed of Trust and continues until the loans are paid in full. During fiscal year 2017, a new loan of \$50,000 was made. Principal of \$4,036 was repaid in fiscal year 2017 and as of June 30, 2017, there were \$651,809 such loans outstanding.

In August 2008 the Owner Participation Agreement was amended to reduce the number of units to be constructed by Western Pacific Housing Inc. to 137 and provide for the conversion of 7 of the moderate income units to low income units. In addition, in August 2008 the 327 unconstructed units of the project were sold to Lyon Milpitas LLC and the Agency entered into a new Owner Participation Agreement with Lyon Milpitas LLC to complete the construction of the affordable housing units.

In September 2006, the former Redevelopment Agency entered into an Owner Participation Agreement with Western Pacific Housing, Inc. for the development of a 147-unit townhome project called Paragon that includes nine units deed-restricted to very low income residents and twenty units deed-restricted to moderate income residents. The Agency will provide silent-second loans of \$133,333 to each of the very low income households. Interest will begin on the date of the promissory note, but will be forgiven on the fourth anniversary of the date the Deed of Trust recorded at a rate of 20% per year, and principal is due 45 years from the date the Deed of Trust was recorded. As of June 30, 2017, there were \$1,197,000 of silent second loans outstanding.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 5 - LOANS RECEIVABLE (Continued)**

***H. Shapell Industries***

In June 2004, the former Redevelopment Agency entered into an Agreement with Shapell Industries of Northern California for the development of a 65-unit townhome development, which will include twenty deed-restricted affordable housing units for very low- and moderate-income units. In August 2005 the Agency entered into an Owner Participation Agreement with the Developer that, in exchange for the development of housing units, the Agency will provide a total of \$800,000 silent-second mortgages to sixteen moderate-income households. In addition, under the terms of the Agreement, the Agency assisted in the rehabilitation of four existing very low-income units in fiscal 2006. Interest will begin on the date of the promissory note, but will be forgiven on the fourth anniversary of the date the Deed of Trust recorded at a rate of 20% per year, and principal is due 45 years from the date the Deed of Trust was recorded. As of June 30, 2017, there were \$800,000 of silent second loans outstanding.

***I. MIL Aspen Associates, Ltd.***

In April 2007, the former Redevelopment Agency entered into an Owner Participation Agreement with MIL Aspen Associates, Ltd. for the development of a 101-unit multi-family project, of which 100 units will be deed-restricted for very low-income households. Under the terms of the Agreement, during fiscal year 2011 the Agency provided a \$2,300,000 loan to the Developer. The loan bears 5% interest compounded annually on outstanding principal balance, and is repayable in April 17, 2037. Upon June 1 of the year following the issuance of the final certificate of occupancy of the project and the first day of the each June during the term of the loan, the Developer shall pay 50% of Surplus Cash generated by the Project, as defined in the Agreement, during the previous calendar year. During the year ended June 30, 2017, the Housing Authority received principal payments totaling \$17,687 and interest accrued during the fiscal year totaled \$143,890. As of June 30, 2017, principal and accrued interest totaled \$2,994,366.

***J. Milpitas Unified School District***

In August 2016, the City entered into a purchase and sale agreement with Milpitas Unified School District under which property held for resale with a carrying value of \$13,400,000, was sold for \$20,670,800. Under the terms of the purchase and sale agreement, the District paid 50% in cash, less agreed-upon site preparation costs totaling \$1,258,112, and the City holds a promissory note, secured by a deed of trust on the property, for the balance of \$10,335,400. The loan did not bear interest and was repaid in September 2017.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 6 - PROPERTY HELD FOR RESALE OR REDEVELOPMENT**

**A. General Fund**

As discussed in Note 16, pursuant to the terms of a settlement agreement between the City, Economic Development Corporation, Housing Authority, Santa Clara County Auditor-Controller, State Controller and other parties, a land parcel was transferred from the Successor Agency to the City in June 2014. One parcel not subject to housing related provisions was transferred to the City from the Housing Authority in June 2014.

As discussed in Note 5J, the City sold property held for resale with a carrying value of \$13,400,000 for \$20,670,800.

The land parcels are accounted for at the lower of cost or net realizable value or agreed-upon sales price if a disposition agreement has been made with a developer.

As of June 30, 2017, property totaling \$4,200,000 is held by the General Fund.

**B. Housing Authority**

The former Redevelopment Agency had purchased parcels of land as part of its efforts to develop or redevelop blighted properties within the Redevelopment areas. Such land parcels are accounted for at the lower of cost or net realizable value or agreed-upon sales price if a disposition agreement has been made with a developer. The City agreed to become the successor to the Redevelopment Agency's housing activities and as a result the City of Milpitas Housing Authority assumed the property held for resale of the Redevelopment Agency's Housing Reserve Fund as of February 1, 2012.

In fiscal year 2010 the Agency purchased five housing units for \$1,503,718 in the Parc Metro Subdivision. During fiscal year 2011, the Agency purchased one additional Parc Metro Subdivision unit for \$305,095, one Centria Subdivision housing unit for \$248,056, and four KB Home Subdivision housing units for \$1,273,892. One of the KB Home Subdivision units with a book value of \$374,253 was sold in August 2011. Two of the KB Home Subdivision units with a book value of \$376,795 and \$294,921 were sold in December 2012 and February 2013, respectively. Four of the Parc Metro Subdivision units were sold in fiscal year 2013, with a total book value of \$1,245,559. The Centria unit was sold in fiscal year 2017 for \$296,000. The units were purchased in order to retain them as affordable housing units and are being held for future resale. The remaining units are rented to tenants.

In November 2009 the Agency purchased property along South Main Street in the amount of \$12,443,137, which was intended for the development of senior housing with low income housing units as discussed in Note 7B.

In February 2011, the Agency purchased additional property along South Main Street in the amount of \$1,800,000 which is intended to be incorporated into the Midtown Specific Plan for housing development. The purchase of this property had been funded by a loan from the Housing Reserve Special Revenue Fund to the Redevelopment Capital Projects Fund, and with the dissolution of the Agency as of February 1, 2012, the State Department of Finance approved the property as a housing asset and the property was transferred to the Housing Authority as the successor housing agency.

As of June 30, 2017, property totaling \$15,034,314 is held by the Housing Authority.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 7 - DEVELOPMENT AND TAX SHARING AGREEMENTS**

The City and former Redevelopment Agency have entered into the development agreements below in an effort to provide incentives to develop new businesses, new tax revenues and affordable housing.

**A. *South Main Senior Lifestyles, LLC.***

In August 2009, the former Redevelopment Agency entered into a Disposition and Development Agreement with the South Main Senior Lifestyles, LLC (SMSL) to develop 180 units of “Continuum of Care Senior Housing” (Phase 1 Parcel), of which 63 units will be for very low and low income households, and 207 units of family housing (Phase 2 Parcel) which will be market rate units. In accordance with the terms of the Agreement, the Agency will acquire the properties and resell them in two phases to the developer prior to construction, subject to certain conditions in the Agreement. In November 2009, the Agency purchased the properties along South Main Street in the amount of \$12,443,137. The sales price for the Phase 1 Parcel will be \$5,022,129, and the sales price for the Phase 2 Parcel will equal the greater of the fair market value of the Phase 2 Parcel as defined in the Agreement or \$7,377,871. In addition, the former Agency’s Housing Reserve Special Revenue Fund was to provide a grant in the amount of \$7.7 million to support the development and operation of the Phase 1 Parcel project.

In March 2011, the Economic Development Corporation assumed the obligations of the Disposition and Development Agreement and on October 18, 2011, a two year extension to the Agreement was approved to include a more extensive high density residential development plan of sixty-three residential units available at affordable housing cost to income-qualified very low and low income households.

In November 2013, the Housing Authority amended the Disposition and Development Agreement. The amendment states the Authority will convey the properties with a carrying value of \$12,443,137 to the developer as a grant after certain requirements are fulfilled. In addition, the amendment also eliminates the \$7.7 million grant obligation included in the initial agreement. It further amended the number of affordable units from 63 to 48, all at the very low income level for seniors.

In June 2015, the Housing Authority amended the Disposition and Development Agreement to extend the deadline to convey the properties to the developer from November 19, 2015 to June 30, 2017. In April 2017, the Housing Authority amended the Disposition and Development Agreement to extend the deadline from June 30, 2017 to December 31, 2017. As of June 30, 2017, the terms of the amendment have not yet been fulfilled and the properties have not been transferred to the developer.

**B. *D.R. Horton Bay, Inc.***

In November 2012, the City entered into an Acquisition and Reimbursement Agreement with D.R. Horton Bay, Inc., which requires the developer to pay Transit Area Specific Plan (TASP) and park in lieu developer impact fees of \$8,007,312 to defray all or a portion of the costs of sewer facilities and to mitigate other impacts of the Harmony Project. Under the terms of the Agreement, D.R. Horton will receive estimated fee credits totaling \$4,355,645 for impact fees for constructing trail improvements, road improvements to the east side of McCandless Road and sewer line 11A and 11B installation. Fee credits totaling \$1,193,772 were issued during the year ended June 30, 2017 and to date, the City has issued fee credits of \$4,145,980.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 7 - DEVELOPMENT AND TAX SHARING AGREEMENTS (Continued)**

**C. Sales Tax Sharing Agreement**

In June 2009, the City entered into a Sales Tax Sharing Agreement with a corporation that provides process control for the semiconductor and related industries. Under the terms of the Agreement, the City agreed to pay the corporation 50% of the calendar year sales and use tax revenues paid by the corporation and collected by the State Board of Equalization for the City that exceed the tax base. The tax base is defined in the Agreement as the average amount of annual sales tax increment received by the City from the corporation for calendar years 2006, 2007 and 2008. The agreement terminates in 2025. The City paid \$117,234 of sales tax to the corporation during fiscal year 2017.

**D. Tax Rebate Agreement**

In March 2015, the City entered into a Tax Rebate Agreement with a corporation that provides high performance computing. Under the terms of the agreement, in return for the corporation moving its headquarters into downtown Milpitas the City agreed to pay the corporation 50% of the real and personal property taxes paid by the corporation, excluding special assessments, 50% of the sales and use tax paid by the corporation, and 50% of the transient occupancy taxes received by the City arising from payment from hotel guests staying in a Milpitas hotel booked/reserved by the corporation. The City paid \$5,946 to the corporation during fiscal year 2017, which represented the second installment for fiscal year 2016 property tax. The City has not made any additional payments to the corporation or recorded an associated liability for fiscal year 2016-2017, because the corporation has not provided the tax information to the City for the first installment of fiscal year 2017 property tax or for any of the sales and use or transient occupancy taxes.

**E. Piper Montague Infrastructure Payment Cost Sharing Agreement**

In August 2009, the City entered into a four-party agreement with three developers in the Piper/Montague Subdistrict in which the developers agreed to share in the costs of infrastructure improvements, including street improvements, storm drain installation and a traffic signal, and certain storm water management facilities. Under the terms of the agreement, when one of the developers undertakes a project related to the shared infrastructure improvements or storm water facilities project, that developer receives TASP fee credits equal to the other two developers pro-rata share of the improvements. The other two developers are then to reimburse the City for those TASP fee credits through the payment of the Piper Montague Infrastructure Fee Payment (PMIP), when building permits are issued, as a surcharge to the TASP fee. In the event the developers do not pay the PMIP fees within seven years of the completion date of the improvements, then the City may levy assessments or collect Mello-Roos special taxes from the applicable properties for the applicable share of the improvements. The cost of the shared infrastructure improvements and storm water facilities project is estimated to total \$9.8 million. If a developer's TASP fee credits resulting from the installation of the shared infrastructure exceed its aggregate TASP Fee obligations, the developer is not entitled to a cash payment from the City, but they may be entitled to a credit against other development fees.

During fiscal year 2016 one of the developers began construction on one of the shared infrastructure projects and expended \$5,019,701 during fiscal year 2016 and \$489,829 during fiscal year 2017. That developer received TASP fee credits to date of \$3,085,337, which is payable from the other two developers as discussed above. One of those developers began pulling permits during fiscal year 2016, which resulted in repayment of \$198,223 in 2016 and \$1,106,899 in 2017. The balance due from the two developers was \$1,780,214 as of June 30, 2017.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 7 - DEVELOPMENT AND TAX SHARING AGREEMENTS (Continued)**

**F. Milpitas Station (San Jose) Venture, LLLP**

In June 2014, the City entered into a Fee Credit Agreement with Milpitas Station (San Jose) Venture, LLLP, which requires the developer to pay TASP fees of \$9,932,643 to defray all or a portion of the improvements and facilities costs associated with the Milpitas Station Project. Under the terms of the agreement, the developer will be entitled to an improvement fee credit totaling \$1,500,000 for construction costs for roadway improvements, pole relocation improvements, and railroad crossing improvements and a park land fee credit totaling \$4,244,486 for the park land dedication to be applied against projected TASP fees. During the year ended June 30, 2017, the City issued fee credits in the amount of \$1,652,965 and fee credits of \$2,017,181 have been issued to date.

**NOTE 8 - CAPITAL ASSETS**

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated acquisition value on the date contributed. The City's policy is to capitalize all assets with costs exceeding certain minimum thresholds and with useful lives exceeding two years.

The City has recorded all its public domain (infrastructure) capital assets, which include landscape, storm, street, and traffic systems.

All capital assets with limited useful lives are required to be depreciated over their estimated useful lives. The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets. Depreciation of all capital assets is charged as an expense against operations each year and the total amount of depreciation taken over the years is reported on the statement of net position as a reduction in the book value of capital assets.

Depreciation is provided using the straight line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The general capitalization threshold is \$5,000. The City has assigned the useful lives below to capital assets:

	Useful Lives Years
Buildings and improvements	30
Other improvements	20
Machinery and equipment	10
Landscape system	50
Storm system	15-25
Street system	25
Traffic system	20
Water system	30-61
Sewer system	50
Capacity rights	32

Terrace Gardens, Inc. has assigned the following useful lives to its capital assets: Buildings, 50 years; Building improvements, 10-50 years; and Equipment, 5-7 years.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 8 - CAPITAL ASSETS (Continued)**

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

**A. Governmental Capital Asset Additions, Retirements and Balances**

	Balance at June 30, 2016	Additions	Retirements	Transfers	Balance at June 30, 2017
Capital assets not being depreciated:					
Land	\$57,566,357				\$57,566,357
Construction in progress	36,341,706	\$26,058,786		(\$2,561,861)	59,838,631
Total capital assets not being depreciated	93,908,063	26,058,786		(2,561,861)	117,404,988
Capital assets being depreciated:					
Buildings and improvements	162,708,726			450,724	163,159,450
Other improvements	27,026,874			1,890,436	28,917,310
Machinery and equipment	39,358,685	515,137	(\$155,901)	152,022	39,869,943
Landscape system	29,655,657	19,850			29,675,507
Storm system	74,299,423				74,299,423
Street system	252,880,396	3,441,003		68,679	256,390,078
Traffic system	18,934,324	79,843			19,014,167
Total capital assets being depreciated	604,864,085	4,055,833	(155,901)	2,561,861	611,325,878
Less accumulated depreciation for:					
Buildings and improvements	(63,575,050)	(5,853,474)			(69,428,524)
Other improvements	(19,371,385)	(819,180)			(20,190,565)
Machinery and equipment	(29,626,256)	(2,517,065)	126,855		(32,016,466)
Landscape system	(13,497,198)	(592,839)			(14,090,037)
Storm system	(71,286,727)	(452,728)			(71,739,455)
Street system	(189,511,412)	(5,549,330)			(195,060,742)
Traffic system	(13,488,903)	(577,786)			(14,066,689)
Total accumulated depreciation	(400,356,931)	(16,362,402)	126,855		(416,592,478)
Net capital assets being depreciated	204,507,154	(12,306,569)	(29,046)	2,561,861	194,733,400
Governmental activities capital assets, net	\$298,415,217	\$13,752,217	(\$29,046)		\$312,138,388

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 8 - CAPITAL ASSETS (Continued)**

Governmental activities construction in progress comprised the following at June 30, 2017:

Project	Total Budget	Actual Costs	Unexpended Budget
Alviso Adobe Renovation	\$6,474,272	\$5,512,602	\$961,670
Higuera Adobe Park	2,600,000	1,908,538	691,462
Park Irrigation System	300,000	216,710	83,290
International Park	500,000	55,645	444,355
McCandless Park	700,000	147,380	552,620
MSC Pool Rehabilitation	1,500,000	1,490,681	9,319
Sports Center Sports Fields	4,585,000	4,496,261	88,739
Park Access Improvement & Resurfacing	600,000	16,672	583,328
Weller House Acquisition	25,000		25,000
McCarthy Blvd Landscape	688,256	472,887	215,369
Fire Station Improvements	900,000	524,045	375,955
City Building Improvements	1,825,000	1,390,425	434,575
Midtown Parking Garage	263,804	155,258	108,546
MSC Facility Improvement	1,900,000	1,559,915	340,085
Sinclair LMD Improvements	73,000	22,265	50,735
St Resurfacing 2014	2,379,288	2,312,640	66,648
City Building, Exterior Painting	100,000	50	99,950
PD Communications	670,000	506,587	163,413
Public Safety Communications Equipment	270,000	259,592	10,408
Public Safety Equipment	196,785	192,000	4,785
Replacement Fire Station Alert System	220,000	464	219,536
City Building Roofing Repairs	100,000		100,000
Police Records Management System	700,000	248,168	451,832
Citywide Park Playground Rehabilitation	500,000	22,371	477,629
Annual Sidewalk, Curb & Gutter Repair	825,000	207,969	617,031
Technology Projects	100,000	80,495	19,505
Midtown Street Light	250,000	126,120	123,880
City Gateway Tree Planting	100,000		100,000
Police Department MedEvac Vehicle	406,465		406,465
Police Department MILO Range Theatre System	99,279		99,279
Storm Drain System	1,035,000	705,078	329,922
Dempsey Road Storm Drain	2,830,000	198,771	2,631,229
Penitencia Pump Station	100,000	40,725	59,275
Bart Project-Storm Improvement	250,000		250,000
Minor Storm Drain Project 2016	100,000		100,000
Trash Removal Devices	350,000	92,904	257,096
Light Rail Median Lane	6,005,000	3,012,480	2,992,520
SCVWD Second Water Supply Turnout #1	200,000	110	199,890
S Milpitas Blvd Extension	14,473,150	14,473,150	
Lower Penitencia Creek	750,000	73,724	676,276
Berryessa Creek Trail	300,000		300,000
Montague Expressway Pedestrian Overcrossing	1,600,000	1,457,150	142,850
SCVWD Second Water Supply Turnout #2	100,000		100,000
TASP Traverse Development	1,876,200	1,876,200	
TASP Citation-SCS	13,170,405	13,170,405	
TASP Pulte	2,017,181	2,017,181	
TASP Harmony	795,013	795,013	
Total construction in progress	<u>\$75,803,098</u>	<u>\$59,838,631</u>	<u>\$15,964,467</u>



**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 8 - CAPITAL ASSETS (Continued)**

***B. Business-Type Capital Asset Additions, Retirements and Balances***

	Balance at June 30, 2016	Additions	Transfers	Balance at June 30, 2017
Capital assets not being depreciated:				
Land	\$1,133,079			\$1,133,079
Construction in progress	11,094,259	\$1,327,715	(\$3,132,718)	9,289,256
Total capital assets not being depreciated	12,227,338	1,327,715	(3,132,718)	10,422,335
Capital assets being depreciated:				
Distribution facilities	79,548,803		850,084	80,398,887
Water Service lines	13,726,449	814,113	118,905	14,659,467
Sewer lines	81,841,886		2,163,729	84,005,615
Capacity rights	55,366,958	6,601,926		61,968,884
Total capital assets being depreciated	230,484,096	7,416,039	3,132,718	241,032,853
Less accumulated depreciation for:				
Distribution facilities	(48,051,020)	(1,423,094)		(49,474,114)
Water Service lines	(5,891,951)	(286,104)		(6,178,055)
Sewer lines	(45,542,700)	(1,328,063)		(46,870,763)
Capacity rights	(18,582,515)	(1,807,606)		(20,390,121)
Total accumulated depreciation	(118,068,186)	(4,844,867)		(122,913,053)
Net capital assets being depreciated	112,415,910	2,571,172		118,119,800
Business-type activities capital assets, net	\$124,643,248	\$3,898,887		\$128,542,135

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 8 - CAPITAL ASSETS (Continued)**

Business-type activities construction in progress comprised the following at June 30, 2017:

Project	Total Budget	Actual Costs	Unexpended Budget
Sewer System Replacement 1	\$1,750,000	\$518,660	\$1,231,340
Sewer System Replacement	2,550,000	252,326	2,297,674
TASP Sewer Line Replacement	2,500,000		2,500,000
CCTV Sanitary Sewer	495,000		495,000
BART Project-Sewer Improvements	350,000	229,473	120,527
Minor Sewer Project 2	50,000	29,863	20,137
Sanitary Sewer Overflow Improvement	25,000	7,763	17,237
Pressure Reducing Valves	320,000	263,453	56,547
Well Upgrade Project	2,645,000	2,036,079	608,921
Water System Seismic Improvement	3,187,951	864,277	2,323,674
Hydrant Replacement	170,000	163,931	6,069
Turnout Improvements	150,000		150,000
Water Meter Replacement	75,000	74,900	100
Cathodic Protection Improvements	850,000	662,444	187,556
Abel St Pipeline Extension	440,000	38,892	401,108
Dempsey Road Water Line	4,607,772	1,094,551	3,513,221
Sunnyhills Turnout Pressure	600,000	191	599,809
Automated Water Meter Replacement	545,000	488,960	56,040
Minor Water Projects	105,000	62,324	42,676
BART Project-Water Improvements	2,984,563	1,819,920	1,164,643
Water Conservation Program	1,400,000	610,035	789,965
Supervisory Control	50,000		50,000
Recycled Water Pipeline Infill	1,500,000	71,214	1,428,786
Daniel Court Water Main & Service Replacement	1,500,000		1,500,000
Total construction in progress	<u>\$28,850,286</u>	<u>\$9,289,256</u>	<u>\$19,561,030</u>

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 8 - CAPITAL ASSETS (Continued)**

**C. Terrace Gardens, Inc.'s Capital Assets**

The following is a summary of Terrace Gardens Inc.'s changes in capital assets for the fiscal year ended December 31, 2016:

	Balance December 31, 2015	Additions	Balance December 31, 2016
Capital assets not being depreciated:			
Land	\$1,565,277		\$1,565,277
Capital assets being depreciated:			
Buildings	11,956,729		11,956,729
Furniture	283,394	\$33,700	317,094
Office equipment	65,096		65,096
Improvements	2,403,893		2,403,893
Total capital assets being depreciated	14,709,112	33,700	14,742,812
Less accumulated depreciation	(7,478,406)	(429,033)	(7,907,439)
Net capital assets being depreciated	7,230,706	(395,333)	6,835,373
Total capital assets, net	\$8,795,983	(\$395,333)	\$8,400,650

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 8 - CAPITAL ASSETS (Continued)**

**D. Depreciation Allocation**

Depreciation expense is charged to functions and programs based on their usage of the related assets. The amounts allocated to each function or program are as follows:

<i><b>Governmental Activities:</b></i>	
General Government	\$3,213,161
Public Works	7,636,125
Engineering	2,685,445
Parks and Recreation	937,406
Police	847,299
Fire	324,781
Internal Service Fund	718,185
<b>Total Governmental Activities</b>	<u><u>\$16,362,402</u></u>
 <i><b>Business-Type Activities:</b></i>	
Water Utility	\$1,709,198
Sewer Utility	3,135,669
<b>Total Business-Type Activities</b>	<u><u>\$4,844,867</u></u>
 <i><b>Discretely Presented Component Unit:</b></i>	
Terrace Gardens, Inc.	<u><u>\$429,033</u></u>

**E. Sewer Treatment Capacity Rights**

The City has a contract with the San Jose/Santa Clara Wastewater Treatment Plant, known as the Water Pollution Control Plant (WPCP), which gives Milpitas and other tributary agencies rights to a percentage of the capacity of their sewage treatment facilities. The contract terminates in 2031 and requires the City to pay its share of operations, capital expenses and debt service on the treatment plant. The City also pays capital costs based on allocated flow capacity rights of 14.25 million gallons per day or about 8.53% of the total plant capacity, 167 million gallons per day. The City has capitalized its share in the amount of \$61,968,884. The operation and maintenance costs are calculated based upon actual sewage flow and strengths. In fiscal year 2017 the City's operation and maintenance share was approximately 5.818% of the total WPCP operations.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 9 - LONG TERM DEBT**

The City generally incurs long-term debt to finance projects or purchase assets which will have useful lives equal to or greater than the related debt.

**A. Current Year Transactions and Balances**

The City's debt issues and transactions are summarized below and discussed in detail thereafter.

	Original Issue Amount	Balance June 30, 2016	Retirements	Balance June 30, 2017	Current Portion
<b>Governmental Activity Debt:</b>					
<b>Cisco Phone System Capital Lease</b>					
0.620%, due September 18, 2016	\$480,302	\$94,222	\$94,222		
<b>Business-type Activity Debt:</b>					
<b>Sewer Certificates of Participation, 2006 Series A</b>					
3.4% - 4.20%, due November 1, 2026	\$9,535,000	\$6,055,000	\$450,000	\$5,605,000	\$470,000

**B. Cisco Phone System Capital Lease**

In September 2012, the City entered into a purchase agreement in the amount of \$480,302 at 0.62% interest with Key Government Finance, Inc. to finance the purchase and installation of the City's phone system. Principal and interest payments of \$97,252 are due each September 18. The final payment on the purchase agreement was made in September 2016.

**C. Sewer Certificates of Participation, 2006 Series A**

On December 1, 2006, the Milpitas Public Financing Authority issued Certificates of Participation, 2006 Series A (Sewer COPs), in the original principal amount of \$9,535,000 to finance certain sewer facilities within the City. The Sewer COPs are collateralized by net revenues from the City's Sewer System Installment Sale Agreement. For fiscal year 2017, net revenues amounted to \$10,145,587, which represented coverage of 15.33 over the \$683,193 of debt service. In lieu of a reserve fund, the COPs are secured by a \$695,758 surety bond issued by the MBIA Insurance Corporation. Principal is payable annually and interest is payable semi-annually through 2027.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 9 - LONG TERM DEBT (Continued)**

**D. Debt Service Requirements**

Annual debt service requirements are shown below:

Year Ending June 30	Business-Type Activities	
	Total Principal	Total Interest
2018	\$470,000	\$216,055
2019	485,000	198,027
2020	505,000	179,028
2021	525,000	159,006
2022	545,000	137,868
2023 - 2027	3,075,000	330,770
	<u>\$5,605,000</u>	<u>\$1,220,754</u>

**NOTE 10 – NET POSITION AND FUND BALANCES**

Governmental fund balances represent the net current assets of each fund. Net current assets generally represent a fund's cash, receivables and deferred outflows of resources, less its liabilities and deferred inflows of resources. Portions of a fund's balance may be restricted, committed or assigned for future expenditure.

Net Position is measured on the full accrual basis while Fund Balance is measured on the modified accrual basis, as explained in Note 1D.

**A. Net Position**

Net Position is the excess of all assets and deferred outflows of resources over all liabilities and deferred inflows of resources. Net Position is divided into three captions. These captions apply only to Net Position, which is determined only for proprietary funds and at the Government-wide level, and are described below:

*Net Investment in Capital Assets and Capacity Rights*, describes the portion of Net Position which is represented by the current net book value of the City's capital assets and capacity rights, less the outstanding balance of any debt issued to finance these assets.

*Restricted* describes the portion of Net Position which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the City cannot unilaterally alter. These principally include developer fees received for use on capital projects and redevelopment funds restricted for community development activities.

*Unrestricted* describes the portion of Net Position which is not restricted as to use.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 10 – NET POSITION AND FUND BALANCES (Continued)**

**B. Fund Balances**

Governmental fund balances represent the net current assets of each fund. Net current assets generally represent a fund's cash, receivables and deferred outflows of resources, less its liabilities and deferred inflows of resources.

The City's fund balances are classified based on spending constraints imposed on the use of resources. For programs with multiple funding sources, the City prioritizes and expends funds in the following order: Restricted, Committed, Assigned, and Unassigned. Each category in the following hierarchy is ranked according to the degree of spending constraint:

*Nonspendable* represents balances set aside to indicate items do not represent available, spendable resources even though they are a component of assets. Assets not expected to be converted to cash, such as prepaids, notes receivable, and property held for resale are included. However, if proceeds realized from the sale or collection of nonspendable assets are restricted, committed or assigned, then nonspendable amounts are required to be presented as a component of the applicable category.

*Restricted* fund balances have external restrictions imposed by creditors, grantors, contributors, laws, regulations, or enabling legislation which requires the resources to be used only for a specific purpose. Encumbrances and nonspendable amounts subject to restrictions are included along with spendable resources.

*Committed* fund balances have constraints imposed by resolution of the City Council which may be altered only by formal action of the City Council. Encumbrances and nonspendable amounts subject to council commitments are included along with spendable resources.

*Assigned* fund balances are amounts constrained by the City's intent to be used for a specific purpose, but are neither restricted nor committed. Intent is expressed by the City Council and may be changed at the discretion of the City Council. This category includes: encumbrances; nonspendables, when it is the City's intent to use proceeds or collections for a specific purpose; and residual fund balances, if any, of Special Revenue, Capital Projects and Debt Service Funds which have not been restricted or committed.

*Unassigned* fund balance represents residual amounts that have not been restricted, committed, or assigned. This includes the residual General Fund balance and residual fund deficits, if any, of other governmental funds.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 10 – NET POSITION AND FUND BALANCES (Continued)**

Detailed classifications of the City's Fund Balances, as of June 30, 2017, are below:

Fund Balance Classifications		Major Special Revenue Fund	Major Capital Projects				Total
	General Fund	Housing Authority	Street Improvement Fund	Transit Area Impact Fee Fund	General Government Project Fund	Other Governmental Funds	
Nonspendable:							
Loans receivable	\$10,335,400						\$10,335,400
Prepays, materials, supplies and deposits	554,209	\$4,667				\$10,086	568,962
Property held for resale	4,200,000						4,200,000
Advance to other funds	5,119,750						5,119,750
Subtotal Nonspendable	20,209,359	4,667				10,086	20,224,112
Restricted for:							
Redevelopment Projects and Programs and Maintenance			\$12,161,271			1,738,377	13,899,648
Housing and community development		52,425,336				3,471,787	55,897,123
Law enforcement services						109,603	109,603
Solid waste reduction and services						1,662,329	1,662,329
Assessment district services						948,096	948,096
Hetch-Hetchy ground lease						1,628,497	1,628,497
Community planning						597,764	597,764
Park improvement projects						11,081,596	11,081,596
Storm drain projects						6,206,026	6,206,026
Transit area capital projects				\$17,385,343			17,385,343
Subtotal Restricted		52,425,336	12,161,271	17,385,343		27,444,075	109,416,025
Committed to:							
PERS stabilization	19,025,620						19,025,620
Assigned to:							
Uninsured claims payable	2,816,694						2,816,694
Public art projects						257,315	257,315
Other contracts	788,391						788,391
General government capital projects	4,461,481				\$29,377,742		33,839,223
Subtotal Assigned	8,066,566				29,377,742	257,315	37,701,623
Unassigned:							
General Fund	25,439,916						25,439,916
Subtotal Unassigned	25,439,916						25,439,916
Total fund balances (deficit)	\$72,741,461	\$52,430,003	\$12,161,271	\$17,385,343	\$29,377,742	\$27,711,476	\$211,807,296



**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 10 – NET POSITION AND FUND BALANCES (Continued)**

**C. Minimum Fund Balance Policies**

The City's Budget Guidelines and Fiscal Policies document the City effort to maintain the following fund balances:

- 1) 15% of the annual operating expenditures in the General Fund's Unassigned Fund Balance for emergencies and unforeseen operating or capital needs.
- 2) Maintain a \$5 million Public Employees Retirement Rate Stabilization Reserve in the General Fund. This reserve may be drawn on if the required employee contribution rates exceed previous year's contribution rates by more than 3% of payroll. The City Council must approve utilization of this reserve at the time of the budget hearing. This reserve will be replenished from unassigned fund balance after the 15% requirement of the operating expenditures has been met.
- 3) Maintain a Storm Drain replacement reserve to replace and repair storm drain pump stations. The City will endeavor to set-aside \$500,000 annually from the General Fund reserve for this purpose.
- 4) Other reserves designated in the General Fund for investment portfolio market gain and uninsured claims payable will be calculated and adjusted annually at appropriate levels.
- 5) Maintain working capital in the Water and Sewer Utility Enterprise Funds to provide for future capital projects and unanticipated emergencies, such as water main break repairs and pump station repairs. The City will attempt to maintain a working capital reserve of approximately 30% and 25% of the annual operating and maintenance expenses in the Water Utility Fund and Sewer Utility Fund, respectively.
- 6) Maintain \$2 million infrastructure replacement funds in both the Water and Sewer Utility Enterprise Funds. The goal is to accumulate at least \$2 million a year from each utility fund to set-aside for replacement of infrastructure as the infrastructure reaches the end of its useful life.
- 7) Maintain a capital reserve in the Equipment Management Internal Service Fund to enable the timely replacement of vehicles and depreciable equipment as cost. The City will maintain a minimum fund balance of at least 30% of the replacement costs for equipment accounted for in this fund.
- 8) Maintain a capital reserve for technological equipment replacement and will endeavor to set-aside an annual amount of \$300,000 in the Equipment Management Internal Service Fund.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 11 - PENSION PLANS**

**A. General Information**

**Plan Descriptions** – All qualified permanent and probationary employees are eligible to participate in the City's separate Safety (police and fire) and Miscellaneous (all other) Plans, agent multiple-employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plans are established by State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

**Benefits Provided** – CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at June 30, 2017, are summarized as follows:

	<b>Miscellaneous</b>		
	<b>Classic Tier I</b>	<b>Classic Tier II</b>	<b>PEPRA</b>
	Prior to October 9, 2011	After October 9, 2011	On or after January 1, 2013
Hire date			
Benefit formula	2.7% @ 55	2.0% @ 60	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 - 55	50 - 63	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% - 2.7%	1.092% - 2.418%	1.0% - 2.5%
Required employee contribution rates	8%	7%	5.75%
Required employer contribution rates	30.592%	30.592%	30.592%

	<b>Safety</b>		
	<b>Classic Tier I</b>	<b>Classic Tier II</b>	<b>PEPRA</b>
	Prior to April 8, 2012	After April 8, 2012	On or after January 1, 2013
Hire date			
Benefit formula	3% @ 50	3% @ 55	2.7% @ 57
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50	50 - 55	50 - 57
Monthly benefits, as a % of eligible compensation	3%	2.4% - 3%	2.0% - 2.7%
Required employee contribution rates	9%	9%	10.00%
Required employer contribution rates	41.435%	41.435%	41.435%

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 11 - PENSION PLANS (Continued)**

**Employees Covered** – The following employees were covered by the benefit terms for each Plan as of the most recent actuarial valuation date of June 30, 2015 and measurement date of June 30, 2016:

	Miscellaneous			Safety		
	Classic Tier I	Classic Tier II	PEPRA Plan	Classic Tier I	Classic Tier II	PEPRA Plan
Inactive employees or beneficiaries currently receiving benefits	332			211		
Inactive employees entitled to but not yet receiving benefits	297			34		
Active employees	150	2	25	123	3	13
Total	779	2	25	368	3	13

**Contributions** – Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

**B. Net Pension Liability**

The City’s net pension liability for each Plan is measured as the total pension liability, less the pension plan’s fiduciary net position. The net pension liability of each of the Plans is measured as of June 30, 2016, using an annual actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

**Actuarial Assumptions** – The total pension liabilities in the June 30, 2015 actuarial valuations were determined using the following actuarial assumptions:

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 11 - PENSION PLANS (Continued)**

	Miscellaneous (1)	Safety (1)
Valuation Date	June 30, 2015	June 30, 2015
Measurement Date	June 30, 2016	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:		
Discount Rate	7.65%	7.65%
Inflation	2.75%	2.75%
Payroll Growth	3.0%	3.0%
Projected Salary Increase	3.2% - 12.2% (2)	3.2% - 20.0% (2)
Investment Rate of Return	7.65% (3)	7.65% (3)
Mortality	Derived using CalPers Membership Data for all Funds (4)	Derived using CalPers Membership Data for all Funds (4)
	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on
Post Retirement Benefit Increase	Purchasing Power applies, 2.75% thereafter	Purchasing Power applies, 2.75% thereafter

(1) Actuarial assumptions are the same for all benefit tiers (Classic Tier I, Classic Tier II, and PEPRA)

(2) Depending on age, service and type of employment

(3) Net of pension plan investment expenses, including inflation

(4) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the CalPERS 2014 experience study report available on CalPERS website.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2015 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

**Discount Rate** – The discount rate used to measure the total pension liability was 7.65% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65% will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website under the GASB 68 section.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 11 - PENSION PLANS (Continued)**

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

Asset Class	Current Target Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	20.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	1.0%	-0.55%	-1.05%
Total	100.0%		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 11 - PENSION PLANS (Continued)**

**C. Changes in the Net Pension Liability**

The changes in the Net Pension Liability for each Plan follows:

	<b>Miscellaneous Plan</b>		
	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
<b>Balance at June 30, 2015</b>	<u>\$195,479,935</u>	<u>\$146,212,503</u>	<u>\$49,267,432</u>
<b>Changes in the year:</b>			
Service cost	2,666,665		2,666,665
Interest on the total pension liability	14,689,192		14,689,192
Differences between actual and expected experience	(18,301)		(18,301)
Changes in assumptions			
Changes in benefit terms			
Contribution - employer		4,519,744	(4,519,744)
Contribution - employee (paid by employer)			
Contribution - employee		1,333,019	(1,333,019)
Plan to Plan Resource Movement		(370)	370
Net investment income		775,183	(775,183)
Administrative expenses		(89,109)	89,109
Benefit payments, including refunds of employee contributions	(9,558,779)	(9,558,779)	
<b>Net changes</b>	<u>7,778,777</u>	<u>(3,020,312)</u>	<u>10,799,089</u>
<b>Balance at June 30, 2016</b>	<u>\$203,258,712</u>	<u>\$143,192,191</u>	<u>\$60,066,521</u>

	<b>Safety Plan</b>		
	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
<b>Balance at June 30, 2015</b>	<u>\$284,555,221</u>	<u>\$199,270,085</u>	<u>\$85,285,136</u>
<b>Changes in the year:</b>			
Service cost	5,094,318		5,094,318
Interest on the total pension liability	21,663,378		21,663,378
Differences between actual and expected experience	3,274,330		3,274,330
Changes in assumptions			
Changes in benefit terms			
Contribution - employer		7,230,399	(7,230,399)
Contribution - employee (paid by employer)			
Contribution - employee		2,064,277	(2,064,277)
Plan to Plan Resource Movement			
Net investment income		1,031,136	(1,031,136)
Administrative expenses		(121,445)	121,445
Benefit payments, including refunds of employee contributions	(14,390,575)	(14,390,575)	
<b>Net changes</b>	<u>15,641,451</u>	<u>(4,186,208)</u>	<u>19,827,659</u>
<b>Balance at June 30, 2016</b>	<u>\$300,196,672</u>	<u>\$195,083,877</u>	<u>\$105,112,795</u>
<b>Grand Totals - Both Plans</b>	<u>\$503,455,384</u>	<u>\$338,276,068</u>	<u>\$165,179,316</u>

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 11 - PENSION PLANS (Continued)**

***Sensitivity of the Net Pension Liability to Changes in the Discount Rate*** – The following presents the net pension liability of the City for each Plan, calculated using the discount rate for each Plan, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>Miscellaneous</u>	<u>Safety</u>
1% Decrease	6.65%	6.65%
Net Pension Liability	\$86,923,227	\$144,981,617
Current Discount Rate	7.65%	7.65%
Net Pension Liability	\$60,066,521	\$105,112,795
1% Increase	8.65%	8.65%
Net Pension Liability	\$37,855,491	\$72,201,156

***Pension Plan Fiduciary Net Position*** – Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

**D. *Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions***

For the year ended June 30, 2017, the City recognized pension expense of \$16,804,229. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Miscellaneous Plan</u>	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$5,082,638	
Differences between actual and expected experience		(\$8,669)
Changes in assumptions		
Net differences between projected and actual earnings on plan investments	7,794,882	
Total	<u>\$12,877,520</u>	<u>(\$8,669)</u>

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 11 - PENSION PLANS (Continued)**

	<b>Safety Plan</b>	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$8,741,506	
Differences between actual and expected experience	2,455,748	(\$1,181,734)
Changes in assumptions		(2,526,045)
Net differences between projected and actual earnings on plan investments	10,665,235	
Total	<u>\$21,862,489</u>	<u>(\$3,707,779)</u>
Grand Totals - Both Plans	<u>\$34,740,009</u>	<u>(\$3,716,448)</u>

\$13,824,144 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

**Miscellaneous Plan:**

Year Ended June 30	Annual Amortization
2018	\$1,068,200
2019	1,076,867
2020	3,596,059
2021	2,045,087

**Safety Plan:**

Year Ended June 30	Annual Amortization
2018	\$438,854
2019	438,854
2020	5,741,748
2021	2,793,748

**E. Public Agency Retirement System**

The Omnibus Budget Reconciliation Act of 1990 (OBRA) mandates that public sector employees who are not members of their employer's existing retirement system as of January 1, 1992 be covered by either Social Security or an alternative plan.

The City's part-time, seasonal and temporary employees are covered under the Public Agency Retirement System (PARS), a defined contribution plan, which requires these employees to contribute 6% and the City to contribute 1.5% of the employees pay plus administration costs. The City's required contributions of \$26,582 and the employee's required contributions of \$106,321 were made during the fiscal year ending June 30, 2017.



**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 11 - PENSION PLANS (Continued)**

***F. Subsequent Event - CalPERS Discount Rate Change***

In December 2016, CalPERS' Board of Directors voted to lower the discount rate used in its actuarial valuations from 7.5% to 7.0% over three fiscal years, beginning in fiscal year 2018. The change in the discount rate will affect the contribution rates for employers beginning in fiscal year 2019, and result in increases to employers' normal costs and unfunded actuarial liabilities.

**NOTE 12 - EMPLOYEE BENEFITS**

***A. Deferred Compensation Plan***

City employees may defer a portion of their compensation under a City sponsored Deferred Compensation Plan created in accordance with Internal Revenue Code Section 457. Under this Plan, participants are not taxed on the deferred portion of their compensation until distributed to them; distributions may be made only at termination, retirement, death or in an emergency defined by the Plan.

The laws governing deferred compensation plan assets require plan assets to be held by a Trust for the exclusive benefit of plan participants and their beneficiaries. Since the assets held under these plans are not the City's property and are not subject to City control, they have been excluded from these financial statements.

***B. Retiree Medical Benefits***

The City provides postretirement health care benefits to employees who retire in good standing from the City after attaining the age of 50 and to certain employees who retire due to disability. As of June 30, 2017 there were 278 participants receiving these health care benefits.

The City joined the California Employers' Retiree Benefit Trust (CERBT), an agent multiple-employer plan administered by CALPERS, consisting of an aggregation of single-employer plans. The CERBT issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained from the California Public Employees' Retirement System, CERBT, P.O. Box 942703, Sacramento, CA 94229-2703.

In order to qualify for postemployment medical and dental benefits an employee must retire from the City and maintain enrollment in one of City's eligible health plans. In addition, there are eligibility rules and contribution requirements defined in the Memorandum of Understanding (MOU) with each employee group. In the MOUs, the Benefit Cap is defined as not more than the single medical premium rate paid by the City for active employees, and the Retiree Cap is 15% above the single Kaiser medical premium rate. The eligibility rules for each MOU are summarized below.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 12 - EMPLOYEE BENEFITS (Continued)**

	Hire/Retirement Date	Eligibility Rule (Continuous Years of Service)	City Contribution Requirement
Professional / Technical (PROTECH)	Hired before July 1, 1995	At least 5	If retirement occurred after July 1, 1990 but before September 1, 2002: - Any employee only medical premium rate  If retirement occurs after August 31, 2002: - Benefit cap
	After June 30, 1995	5 but less than 10 10 but less than 15 15 but less than 20 At least 20	Up to 25% of the benefit cap Up to 50% of the benefit cap Up to 75% of the benefit cap Up to 100% of the benefit cap
Mid-Management and Confidential (LIUNA)	Hired before July 1, 1995	At least 5	Benefit cap
	Hired after June 30, 1995	5 but less than 10 10 but less than 15 15 but less than 20 At least 20	Up to 25% of the benefit cap Up to 50% of the benefit cap Up to 75% of the benefit cap Up to 100% of the benefit cap
Unrepresented (UNREP)	Hired before July 1, 1995	At least 5	Benefit cap
	Hired after July 1, 1995	5 but less than 10 10 but less than 15 15 but less than 20 At least 20	Up to 25% of the benefit cap Up to 50% of the benefit cap Up to 75% of the benefit cap Up to 100% of the benefit cap
Fire Safety (IAFF)	Hired before January 1, 1995 and retired before January 1, 1990	N/A	PEMHCA Minimum Only
	Hired before January 1, 1995 and retired after December 31, 1989 but before January 1, 1995	N/A	Any employee only premium
	Hired before January 1, 1995 and retired after December 31, 1994 but before February 21, 2007	1 but less than 10	50% of the benefit cap
		At least 10	100% of the benefit cap
	Hired before January 1, 1995 and retired after February 20, 2007	1 but less than 10 At least 10	Up to 50% of the lesser of the retiree cap and the premium rate Up to 100% of the lesser of the retiree cap and the premium rate
	Hired after December 31, 1994 and retired before February 21, 2007	1 but less than 10 10 but less than 15 15 but less than 20 At least 20	Up to 25% of the benefit cap Up to 50% of the benefit cap Up to 75% of the benefit cap Up to 100% of the benefit cap
		1 but less than 10 10 but less than 15 15 but less than 20 At least 20	25% of the lesser of the retiree cap and premium rate 50% of the lesser of the retiree cap and premium rate 75% of the lesser of the retiree cap and premium rate 100% of the lesser of the retiree cap and premium rate

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 12 - EMPLOYEE BENEFITS (Continued)**

	Hire/Retirement Date	Eligibility Rule (Continuous Years of Service)	City Contribution Requirement
Police (MPOA)	Hired before January 1, 1996 and retired before January 1, 1989	N/A	PEMHCA Minimum Only
	Hired before January 1, 1996 and retired after December 31, 1988 but before July 1, 2003	At least 5	Any employee only medical premium rate
	Hired before January 1, 1996 and retired after June 30, 2003	At least 5	Up to the Retiree Cap
	Hired after December 31, 1995 and retired before June 30, 2003	1 but less than 9	Up to 25% of any employee only premium
		9 but less than 14	Up to 50% of any employee only premium
		14 but less than 19	Up to 75% of any employee only premium
		At least 19 full years of service	Up to 100% of any employee only premium
Employee Association (MEA)	Hired after December 31, 1995 and retired after June 30, 2003	1 but less than 9 9 but less than 14 14 but less than 19 At least 19	Up to 25% of the retiree cap Up to 50% of the retiree cap Up to 75% of the retiree cap Up to 100% of the retiree cap
	Hired before July 1, 1996	At least 5	If retirement occurred after July 17, 1989 but before March 19, 2003: -Any employee only medical premium rate  If retirement occurred after March 18, 2003: -Benefit cap
Supervisors (MSA)	Hired after June 30, 1996	1 but less than 10 10 but less than 15 15 but less than 20 At least 20	Up to 25% of the benefit cap Up to 50% of the benefit cap Up to 75% of the benefit cap Up to 100% of the benefit cap
	Hired before June 30, 1995	At least 5	If retirement occurs before November 27, 2007 -Any employee only medical premium rate If retirement occurs on or after November 27, 2007 -Benefit cap
	Hired after June 30, 1995 and retired after November 27, 2007	5 but less than 10	Up to 25% of the benefit cap
		10 but less than 15 15 but less than 20 At least 20	Up to 50% of the benefit cap Up to 75% of the benefit cap Up to 100% of the benefit cap

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 12 - EMPLOYEE BENEFITS (Continued)**

**Funding Policy and Actuarial Assumptions**

The City's policy is to prefund these benefits by accumulating assets with CERBT discussed above pursuant to the City's annual budget approved by Council. The annual required contribution (ARC) for the year ended June 30, 2017 was determined as part of a July 1, 2015 actuarial valuation using the entry age normal actuarial cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The actuarial assumptions included (a) 7% for explicit subsidy benefits and 4% for implicit subsidy benefits investment rate of return, (b) 3.25% projected annual salary increase, and (c) health costs trend rates of 4.50%-7.50% for medical and 3.0% for dental. The health care cost trend rate is the rate of change in per capita health claims costs over time as a result of factors such as medical inflation, utilization of healthcare services, plan design, and technological developments.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the City and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the City and plan members to that point. The actuarial methods and assumptions used include techniques that smooth the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Actuarial calculations reflect a long-term perspective and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future.

Actuarially determined amounts are subject to revision at least biannually as results are compared to past expectations and new estimates are made about the future. The actuarial value of assets is based upon the balance in the CERBT Trust. The City's OPEB unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll using a 30 year amortization period on a closed basis. The actuarial study indicates that as of July 1, 2015, the actuarial accrued liability was estimated to be \$72,175,202.

**Changes of Assumptions**

To comply with newly revised Actuarial Standard of Practice No. 6 (ASOP 6), the July 1, 2015 actuarial valuation includes an implicit subsidy liability. This liability was not calculated in prior reports because of the former "community rating" exemption for employers participating in large pooled health plans like CalPERS. When premiums for retirees are determined using a blend of active employee and retiree experience, it creates an implicit subsidy to the retirees, since retiree healthcare costs are generally higher than active employees. ASOP 6 effectively requires most public agencies to calculate an implicit subsidy liability whenever their retirees participate in the group medical plans, but only pay the same premiums as active employees. ASOP 6 is effective for all actuarial valuations with a measurement date on or after March 31, 2015.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 12 - EMPLOYEE BENEFITS (Continued)**

Changes of assumptions since the prior actuarial valuation were:

- The discount rate was changed from 7.50% to 7.0% for explicit subsidy benefits and 4.0% for implicit subsidy benefits based on updated expectations of long-term returns on trust and general City assets.
- Assumed wage inflation rate decreased from 3.25% to 3.0%
- General inflation rate decreased from 3.0% to 2.75%.
- Healthcare, dental and vision trend rates were reset to reflect updated cost increase expectations.
- Medical plan premium rates are assumed to increase by lower rates than were assumed in the prior valuation. Where only the PEMHCA minimum benefit is payable, it is assumed 4.5% increases in this benefit.
- Assumed mortality, termination, disability and retirement rates were updated from those in the CalPERS 2010 experience study report to those provided in the CalPERS 2014 experience study report. Rates of mortality were updated to the rates in the midpoint year of the CalPERS 2014 experience study (2008), then projected on a generational basis by Bickmore Scale 2014.

**Funding Progress and Funded Status**

Generally accepted accounting principles permit contributions to be treated as OPEB assets and deducted from the Actuarial Accrued Liability when such contributions are placed in an irrevocable trust or equivalent arrangement. During the fiscal year ended June 30, 2017 the City contributed the explicit ARC of \$3,284,819 to the Plan. As a result, the City has calculated and recorded the Net OPEB Asset/Liability, representing the difference between the ARC, amortization and contributions, as presented below:

	<u>Explicit</u>	<u>Implicit</u>	<u>Plan Total</u>
Calculation of the Annual OPEB Cost:			
Annual Required Contribution (ARC)	\$3,284,819	\$1,725,930	\$5,010,749
Interest on Net OPEB Obligation (Asset)		36,247	36,247
Adjustment to the ARC		(49,345)	(49,345)
Annual OPEB Cost	<u>3,284,819</u>	<u>1,712,832</u>	<u>4,997,651</u>
Contributions Made:			
Contribution to OPEB trust	(3,284,819)		(3,284,819)
Estimated implicit subsidy		(807,502)	(807,502)
Total Contributions	<u>(3,284,819)</u>	<u>(807,502)</u>	<u>(4,092,321)</u>
Change in Net OPEB Obligation (Asset)		905,330	905,330
Net OPEB Obligation (Asset) June 30, 2016		<u>906,182</u>	<u>906,182</u>
<b>Net OPEB Obligation (Asset) June 30, 2017</b>		<u><u>\$1,811,512</u></u>	<u><u>\$1,811,512</u></u>

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 12 - EMPLOYEE BENEFITS (Continued)**

The actuarial accrued liability (AAL) representing the present value of future benefits, included in the actuarial study dated July 1, 2015, amounted to \$72,175,202. The AAL is partially funded since assets have been transferred into CERBT. The City's prior year contributions, the current year annual required contribution, along with investment income, net of current year premiums reimbursed to the City, resulted in assets with CERBT of \$39,068,679 as of June 30, 2017, which partially funds the actuarial accrued liability.

The Plan's annual required contributions and actual contributions for fiscal years ended June 30, 2015, 2016 and 2017 are set forth below:

Fiscal Year	Annual OPEB Cost	Actual Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
June 30, 2015	\$3,848,712	\$3,848,712	100%	\$0
June 30, 2016	4,812,451	3,906,269	81%	906,182
June 30, 2017	4,997,651	4,092,321	82%	1,811,512

The Schedule of Funding Progress below and the required supplementary information immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Trend data from the latest available actuarial study is presented below:

Actuarial Valuation Date	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability	Unfunded (Overfunded) Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded (Overfunded) Actuarial Liability as Percentage of Covered Payroll
7/1/2015	\$32,569,037	\$72,175,202	\$39,606,165	45.12%	\$35,552,000	111.40%

**C. Accrued Vacation and Sick Leave Liabilities**

Employees accrue vacation up to certain maximums, based on employee classification. Employees may elect to be paid a portion of their vacation at various times according to the applicable memorandum of understanding. Sick leave may be accumulated without limit. Vested sick leave may be paid upon separation from service in good standing and is based on a vesting schedule determined by years of service.

The City measures and adjusts the liability for vacation and sick leave annually at its fiscal year end. During the year ended June 30, 2017, sick leave benefits payable decreased by \$20,603 and vacation benefits payable decreased by \$136,972. For all governmental funds, amounts expected to be paid out for permanent liquidation are recorded as fund liability; the long-term portion is recorded in the Statement of Net Position.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 12 - EMPLOYEE BENEFITS (Continued)**

The changes of the Accrued Vacation and Sick Leave Liabilities and the allocation of each liability among the departments are as follows:

	Accrued Vacation		Sick Leave	
	Governmental Activities	Business-Type Activities	Governmental Activities	Business-Type Activities
Balance as of June 30, 2016	\$4,487,015	\$273,570	\$3,464,526	\$302,864
Additions	3,753,171	252,674	1,736,445	55,384
Payments and adjustments	(3,573,305)	(295,568)	(1,560,192)	(252,240)
Balance as of June 30, 2017	<u>\$4,666,881</u>	<u>\$230,676</u>	<u>\$3,640,779</u>	<u>\$106,008</u>
General Government	\$441,425		\$137,972	
Building	152,490		146,027	
Public Works	241,374		121,766	
Engineering	99,463		31,157	
Planning	59,416			
Recreation	107,327		62,881	
Police	2,358,353		1,044,244	
Fire	1,130,463		2,053,039	
Water Utility		\$115,338		\$53,004
Sewer Utility		115,338		53,004
Internal Service	76,570		43,693	
Total	<u>\$4,666,881</u>	<u>\$230,676</u>	<u>\$3,640,779</u>	<u>\$106,008</u>
Long-Term Portion:				
Governmental activities	\$1,929,706		\$2,658,259	
Business-type activities		\$117,252		\$73,562
Total long term portions	<u>\$1,929,706</u>	<u>\$117,252</u>	<u>\$2,658,259</u>	<u>\$73,562</u>
Current Portion:				
Governmental activities	\$2,737,175		\$982,520	
Business-type activities		\$113,424		\$32,446
Total current portions	<u>\$2,737,175</u>	<u>\$113,424</u>	<u>\$982,520</u>	<u>\$32,446</u>

Accrued Vacation and Sick Leave are liquidated by the fund that has recorded the liability. The long-term portion of governmental activities compensated absences is liquidated primarily by the General Fund.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 13 - RISK MANAGEMENT**

**A. Risk Pool**

The City participates in ABAG Plan Corporation, a non-profit public benefit corporation established to provide liability insurance coverage, claims and risk management, and legal defense to its participating members. ABAG Plan provides \$5,000,000 of self-funded general liability and auto coverage and \$25,000,000 excess liability coverage per occurrence and is responsible for paying claims in excess of the City's \$100,000 deductible. ABAG Plan also provides \$2,000,000 employee theft coverage in excess of the City's \$10,000 deductible, and \$2,000,000 of cyber crime coverage (with various sub-limits depending on the type of cyber crime) in excess of the City's \$10,000 deductible. ABAG Plan provides coverage for property damage up to \$1 billion. The City retains a self-insured amount of \$5,000 for each property and \$5,000 for each vehicle per occurrence.

During the fiscal year ended June 30, 2017 the City contributed \$628,988 for current year coverage.

ABAG Plan is governed by a board consisting of representatives from member municipalities. The board controls the operations of ABAG Plan funding policies and approval of operating budgets, independent of any influence by member municipalities beyond their representation on the Board.

The City's annual contributions to ABAG Plan are calculated based on the ratio of the City's payroll to the total payrolls of all entities participating in the program and the City's loss experience. Actual surpluses or losses are shared according to a formula developed from overall costs and spread to member entities on a percentage basis.

Financial statements may be obtained from ABAG Services, P.O. Box 2050, Oakland, CA 94604-2050.

**B. Workers Compensation**

The City has a commercial insurance policy which provides workers compensation coverage up to a maximum of \$20,000,000. The City has a deductible or uninsured liability of up to \$750,000 per claim for miscellaneous employees and \$1,000,000 for public safety employees.

**C. Dental**

The City is self-insured for dental care for miscellaneous employees up to a maximum of \$14,000 per family, based on years of service. Claims are funded on a pay-as-you-go basis. During the year ended June 30, 2017 the City paid \$699,364 in dental claims and administrative fees. Public safety employees are insured under various dental care insurance plans.



**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 13 - RISK MANAGEMENT (Continued)**

**D. Liability for Uninsured Claims**

The City provides for the uninsured portion of claims and judgments, including a provision for claims incurred but not reported, when a loss is deemed probable of assertion and the amount of the loss is reasonably determinable.

The City's liability for uninsured claims is limited to worker's compensation and general liability claims, as discussed above, and was computed as follows based on claims experience:

	2017			2016
	Worker's Compensation	General Liability	Total	
Beginning balance	\$5,076,217	\$106,012	\$5,182,229	\$5,413,715
Liability for current fiscal year claims	1,080,278	163,381	1,243,659	1,033,734
Increase (decrease) in estimated liability for prior fiscal year claims and claims incurred but not reported (IBNR)	937,491	82,615	1,020,106	(450,472)
Claims paid	(1,024,419)	(143,203)	(1,167,622)	(814,748)
Ending balance	<u>\$6,069,567</u>	<u>\$208,805</u>	<u>\$6,278,372</u>	<u>\$5,182,229</u>
Due in one year	<u>\$828,029</u>	<u>\$155,948</u>	<u>\$983,977</u>	<u>\$950,630</u>

Settlements have not exceeded insurance coverage in the past three fiscal years.

**NOTE 14 - COMMITMENTS AND CONTINGENT LIABILITIES**

**A. Litigation**

The City is subject to litigation arising in the normal course of business. In the opinion of the City Attorney there is no pending litigation which is likely to have a material adverse effect on the financial position of the City.

**B. Federal and State Grant Programs**

The City participates in several Federal and State grant programs. These programs are subject to audit by the City's independent accountants in accordance with the provisions of the federal Single Audit Act as amended and applicable State requirements. No cost disallowances have been proposed as a result of audits completed to date; however, these programs are still subject to further examination by the grantors and the amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 14 - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)**

**C. Encumbrances**

The City uses an encumbrance system as an extension of normal budgetary accounting for governmental funds. Under this system, purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of applicable appropriations. Encumbrances outstanding at year-end are recorded as restricted, committed or assigned fund balance, depending on the classification of the resources to be used to liquidate the encumbrance, since they do not constitute expenditures or liabilities. Outstanding encumbrances at year-end are automatically reappropriated for the following year. Unencumbered and unexpended appropriations lapse at year-end. Encumbrances outstanding by fund as of June 30, 2017 were as follows:

Major Governmental Funds:	
General Fund	\$788,391
Housing Authority	
Street Improvement Fund	4,406,159
Transit Area Impact Fee Fund	907,720
Non-Major Governmental Funds	<u>3,518,862</u>
Total Encumbrances	<u><u>\$9,621,132</u></u>

**D. Silicon Valley Rapid Transit Program Berryessa Extension Project**

In September 2010, as amended, the City entered into a Master Agreement with the Santa Clara Valley Transportation Authority (VTA) to define the respective rights and obligations of each party and to ensure future cooperation between the City and VTA in connection with the Silicon Valley Rapid Transit Program Berryessa Extension Project. The Project is funded in part with funds made available to VTA by the Federal Transit Administration, and VTA will perform all acquisition, design and construction activities related to the Project.

Under the terms of the Master Agreement, VTA is entitled to reimbursement from the City's Transit Area Specific Plan (TASP) developer fees for a portion of the costs related to the eastern segment of the Milpitas Boulevard extension. The City's reimbursement commitment for this phase of the Project is not to exceed \$17.0 million and is repayable as the TASP developer fees become available. Although the VTA has first priority to the available TASP funds, the payment is subordinated to the City's existing interfund advances to the Transit Area Impact Fee Capital Projects Fund.

The Milpitas Boulevard extension project began in fiscal year 2014 and the VTA has billed the City for project costs in the amount of \$14.8 million through June 30, 2017. During fiscal year 2017, the City paid \$5.1 million to VTA, but the Transit Area Impact Fee Capital Projects Fund did not have TASP funds available for the payment of the remaining balance due, therefore the City has recorded a liability in the amount of \$9.7 million in the Transit Area Impact Fee Capital Projects Fund as of June 30, 2017. The VTA and the City disagree on the amount of funding available for roadway improvements in order to reimburse the VTA. The City is conducting research and will meet with the VTA to determine the next steps. No provision for liabilities resulting from the outcome of this uncertain matter has been recorded in the accompanying financial statements.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 14 - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)**

***E. South Bay Water Recycling System Facility Replacement***

As required by the Water Pollution Control Plant's National Pollutant Discharge Elimination System (NPDES) permit, the regional partner agencies are responsible for maintenance and operation of the South Bay Water Recycling System. The regional partner agencies, which includes the City of Milpitas, are also responsible for the planned \$2 billion rehabilitation/replacement of the facility over the next thirty years. The City's share of the project is approximately 5.818% as discussed in Note 8E.

***F. Bay Area Water Supply and Conservation Agency Revenue Bonds Surcharge***

The City contracts with the City and County of San Francisco for the purchase of water from the Hetch Hetchy System operated by the San Francisco Public Utilities Commission (SFPUC). The City is also a member of the Bay Area Water Supply and Conservation Agency (BAWSCA) which represents the interests of all the 24 cities and water districts, as well as two private utilities, that purchase wholesale water from the SFPUC.

In 2009 the City entered into a new 25 year agreement with the SFPUC that includes a minimum water delivery level of 5.341MGD. One of the ways that the new agreement differs from the old is in how facilities constructed by the SFPUC that benefit the regional customers are treated from a rate and financial perspective. Under the old agreement, facilities were built, capitalized, and added to the rate base with a rate of return (interest), and then paid for over their useful lives through wholesale rates. Under the new agreement, the SFPUC issues revenue bonds and the debt service (which also includes an interest component) is paid for through rates over the life of the bonds.

During the transition from the old to the new contracts, one of the issues addressed was how to deal with the \$370 million in assets that were still being paid for by the wholesale customers under the old agreement. The assets were transferred to the new agreement, assigned a life with an agreed upon rate of return of 5.13%. Also negotiated was a provision to allow the wholesale customers to prepay any remaining existing assets' unpaid principal balance without penalty or premium. This prepayment was executed through the issuance of bonds by BAWSCA which provide a better interest rate given the favorable rate environment.

BAWSCA issued Revenue Bonds in the principal amount of \$335,780,000 in January 2013 to prepay the capital cost recovery payment obligation and fund a stabilization fund. The Bonds mature in October 2034 and are secured by surcharges to the monthly water purchase charges imposed upon the participating members. The Bonds are not a debt obligation of any member, and BAWSCA's failure to pay its Bonds would not constitute a default by any participating member.

Should any participating member fail to pay its share, BAWSCA will rely on the stabilization fund and will pursue all legal remedies to collect the shortfall from the delinquent member. In the interim, other participating members may have their portion adjusted to insure the continued payment of the debt service surcharge.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 14 - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)**

The risk of bearing the debt service expense of a defaulting member is not significantly different than the risk each member assumes currently for fluctuations in water purchase charges. Under the Bond indenture, BAWSCA maintains a stabilization fund. If surcharge revenues collected are less than needed (due to a member's failure to pay timely), BAWSCA uses the stabilization fund to fund the debt service deficiency, and increases the surcharge in the subsequent year to make up for the prior year shortfall and reimburse the stabilization fund account. Also, given that each participating agency's governing body adopted a Resolution to participate in the Bond issue, Management believes that default is generally very unlikely.

The annual debt service surcharges are a fixed amount for each participant and are calculated by taking the subsequent fiscal year's debt service, multiplied by each participant's actual water purchase as a percent of total wholesale customer water purchases from the prior fiscal year. One-twelfth of the annual surcharge is included in the monthly bill from SFPUC. Because each participant's share of the debt service surcharge is proportional to the amount of water purchased during the prior fiscal year, the City's share of the debt service will fluctuate from year to year.

The City paid its surcharge of \$943,930 during fiscal year 2017, which is included as a component of purchased water expenses in the Water Enterprise Fund. The surcharge for fiscal year 2018 is estimated to be \$906,816.

**NOTE 15 – LOCAL IMPROVEMENT DISTRICT DEBT WITH NO CITY COMMITMENT**

Local Improvement Districts (LIDs) are established in various parts of the City to provide improvements to properties located in those districts. Properties in these Districts are assessed for the cost of improvements; these assessments are payable over the term of the debt issued to finance the improvements and must be sufficient to repay this debt. The City acts solely as the collecting and paying agent for the Districts' debt issues below, but it has no direct or contingent liability or moral obligation for the payment of this debt, which is not included in the general debt of the City. The outstanding balance of the remaining issues as of June 30, 2017 is as follows:

Issue	Fiscal Year Issued	Interest Rate	Principal Maturities		Outstanding June 30, 2017
			Annual Amount	Fiscal Years Ended	
LID #18	1999	5.85%	\$270,000 - 285,000	2018-2019	\$555,000
LID #20	1999	5.70%	1,260,000 - 1,330,000	2018-2019	2,590,000
Total					<u>\$3,145,000</u>

Both LIDs were paid off in September 2017.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 16 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES**

**A. REDEVELOPMENT DISSOLUTION**

In an effort to balance its budget, the State of California adopted ABx1 26 on June 28, 2011, amended by AB1484 on June 27, 2012, which suspended all new redevelopment activities except for limited specified activities as of that date and dissolved redevelopment agencies on January 31, 2012.

The suspension provisions prohibited all redevelopment agencies from a wide range of activities, including incurring new indebtedness or obligations, entering into or modifying agreements or contracts, acquiring or disposing of real property, taking actions to adopt or amend redevelopment plans and other similar actions, except actions required by law or to carry out existing enforceable obligations, as defined in ABx1 26.

Effective January 31, 2012, the Redevelopment Agency was dissolved. Certain assets of the Redevelopment Agency Housing Reserve Fund were distributed to a Housing Successor; and all remaining Redevelopment Agency assets and liabilities were distributed to a Successor Agency.

Under the provisions of AB 1484, the City can elect to become the Housing Successor and retain the housing assets. The City's Housing Authority elected to become the Housing Successor and on February 1, 2012, certain housing assets were transferred to the City's Housing Authority Special Revenue Fund.

The City also elected to become the Successor Agency and on February 1, 2012 the Redevelopment Agency's remaining assets were distributed to and liabilities were assumed by the Successor Agency. ABx1 26 requires the establishment of an Oversight Board to oversee the activities of the Successor Agency and one was established on March 26, 2012. The activities of the Successor Agency are subject to review and approval of the Oversight Board, which is comprised of seven members, including one member of City Council and one former Redevelopment Agency employee appointed by the Mayor.

The activities of the Housing Successor are reported in the Housing Authority Special Revenue Fund as the City has control of those assets, which may be used in accordance with the low and moderate income housing provisions of California Redevelopment Law.

The activities of the Successor Agency are reported in the Successor Agency to the Redevelopment Agency Private-Purpose Trust Fund as the activities are under the control of the Oversight Board. The City provides administrative services to the Successor Agency to wind down the affairs of the former Redevelopment Agency.

Cash and investments of the Successor Agency as of June 30, 2017 are discussed in Note 3 above. Information presented in the following footnotes represents other assets and liabilities of the Successor Agency as of June 30, 2017.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 16 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES**  
**(Continued)**

***B. PROPERTY HELD FOR RESALE***

In August 2016, the Successor Agency entered into a purchase and sale agreement with a private party to sell property held for resale with a carrying value of \$223,000. The property was sold in September 2016 for \$223,000.

In July 2016, the Successor Agency entered into a purchase and sale agreement with a developer to sell property held for resale with a carrying value of \$6,988,800. The property was sold in October 2016 for \$7 million.

In May 2017, the Successor Agency entered into a purchase and sale agreement with a developer to sell property held for resale with a carrying value of \$39,441 for \$3,600,000.

During the year ended June 30, 2017, the Agency reviewed the net realizable value for the remaining parcel held and, as a result of the sale agreement approved in November 2017, has reduced the carrying value of the parcel by \$5,455,000.

As of June 30, 2017, property totaling \$315,000 is held by the Successor Agency.

***C. DEVELOPMENT AGREEMENTS***

The Successor Agency assumed the obligations of the Redevelopment Agency's Disposition and Development Agreements as follows:

***Installment Purchase Agreement***

The Redevelopment Agency agreed to purchase two parcels of land comprising thirty-five acres surrounding the County Correctional Facility for \$57,750,000 in cash and \$135,000,000 payable over eighteen years at no interest.

The Agency also agreed to re-sell this land to developers for a total of \$57,750,000, of which \$40,000,000 was received in fiscal 2005 and the remainder was received on the close of escrow on the second parcel in fiscal 2006. The Agency's intent in purchasing this land was to simultaneously re-sell it for development.

In addition, starting in 2024 the Agency is required to pay the County the greater of \$2,000,000 or 50% of the sales tax revenue arising out of sales originating on certain properties that are in the Midtown Area, but not to exceed \$5,000,000 annually, until the earlier of either June 30, 2038, the date that tax increment revenue allocated to the Agency has reached its limit; or the termination of the Redevelopment Plan.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 16 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES**  
**(Continued)**

**D. LONG-TERM OBLIGATIONS**

**1. Current Year Transactions and Balances**

The Successor Agency's debt issues and transactions are summarized below and discussed in detail thereafter.

	Balance June 30, 2016	Retirements	Balance June 30, 2017	Current Portion
<b>Installment Purchase Agreement with the County of Santa Clara due June 30, 2023</b>	\$19,211,878	\$2,784,187	\$16,427,691	\$2,651,607
<b>2015 Tax Allocation Bonds</b>				
2%-5%, due September 1, 2032	120,415,000	6,045,000	114,370,000	6,225,000
Plus: Unamortized bond premium	19,849,366	1,190,962	18,658,404	
<b>Total</b>	<u>\$159,476,244</u>	<u>\$10,020,149</u>	<u>\$149,456,095</u>	<u>\$8,876,607</u>

**2. Installment Purchase Agreement with the County of Santa Clara**

The former Redevelopment Agency had a non-interest bearing Installment Purchase Agreement with the County of Santa Clara in the original principal amount of \$135,000,000, as mentioned in Note 16C(1) above. As discussed in Note 16C (1), under the Agreement, the City purchased two parcels of land that were later sold to developers. The amount due under the Agreement does not bear interest and is payable annually through 2023. The Successor Agency has therefore recorded a liability of \$16,427,691 at June 30, 2017, representing the present value of future payments due under this Agreement.

**3. 2015 Tax Allocation Refunding Bonds**

In March 2015, the Successor Agency issued Tax Allocation Refunding Bonds in the original principal amount of \$127,790,000. The proceeds of the Bonds were used to advance refund and defease the outstanding balance of the 2003 Tax Allocation Bonds, which were redeemed on March 23, 2015. The Bonds are secured by Redevelopment Property Tax Trust Fund (RPTTF) revenues. In lieu of a reserve fund, the 2015 Bonds are secured by a reserve insurance policy in the amount of \$11,822,000, issued by Assured Guaranty Municipal Corp. Principal is payable annually and the interest is payable semi-annually through 2032.

**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 16 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES**  
**(Continued)**

**4. Debt Service Requirements**

Debt service requirements are shown below for all long-term debt:

Year Ending June 30	Principal	Interest
2018	\$8,876,607	\$7,815,393
2019	9,505,408	8,182,592
2020	9,621,103	8,029,022
2021	9,818,669	7,821,331
2022	10,042,780	7,589,845
2023-2027	45,573,124	18,441,376
2028-2032	33,420,000	4,575,000
2032-2033	3,940,000	98,500
	130,797,691	<u>\$62,553,059</u>
Plus: Unamortized bond premium	<u>18,658,404</u>	
	<u><u>\$149,456,095</u></u>	

**5. Defeased Bonds**

As of June 30, 2017, the outstanding balance of defeased debt was \$15,790,000 for the Redevelopment Agency 1997 Tax Allocation Bonds.

**E. STATE ASSET TRANSFER REVIEW, DEMAND FOR RETURN OF ASSETS AND SETTLEMENT AGREEMENT**

The activities of the former Redevelopment Agency and the Successor Agency were subject to examination by the State of California and the State Controller's Office conducted a review of the propriety of asset transfers between the former Redevelopment Agency or the Successor Agency and any public agency that occurred on or after January 1, 2011. The review resulted in a demand that the City return certain assets to the Redevelopment Agency and some of the assets were returned and others remain in the possession of the Economic Development Corporation.

The City was awaiting the results of a Due Diligence Review (DDR) to determine the amount of the remaining assets that should be transferred to the Milpitas Successor Agency. The DDR indicated assets totaling \$31,877,702 were to be returned, but that amount was later adjusted by the State Department of Finance to \$38,775,908. The City disputed the results of the DDR and the City filed suit against the County of Santa Clara and the State of California, claiming amongst other things, the unconstitutionality or other unlawfulness of the State legislation under which the State made its DDR orders.

The City, Economic Development Corporation, Housing Authority, Santa Clara County Auditor-Controller, State Controller and other parties entered into a settlement agreement in June 2014 to resolve the matters discussed above. Under the terms of the settlement agreement, the City and Economic Development Corporation were required to return cash and capital assets totaling \$48,330,360 to the Successor Agency and the Santa Clara County Auditor-Controller. The Successor Agency was required to convey land and construction in progress capital assets in the amount of \$98,129,255 to the City. In addition, with the conveyance of certain parcels of land to the City, the City forgave the balance of the Purchase and Sale Agreement in the amount of \$9,472,571.



**CITY OF MILPITAS**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 16 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES**  
**(Continued)**

The Successor Agency received a Finding of Completion on June 27, 2014.

In July 2015, the County alleged that the City, Economic Development Corporation and the Housing Authority have breached the Settlement Agreement and the dissolution laws with respect to several actions/inactions by the City and relating to certain City properties. The City has provided a written response to the accusation, inviting a meet and confer over one of the subject properties and has agreed to execute remaining documents to resolve the majority of the dispute. The County is questioning the zoning of one of the subject properties as parkland, rather than multi-family housing. The City has complied with most of the County's demands. With the Oversight Board's November 2017 approval of the sale of the property in question, and the November 2016 voter-approved Ordinance requiring that any attempt to rezone parkland to residential or commercial property be approved by a two-thirds majority vote in a general election, City management believes the dispute has been resolved and does not expect any further claims that it has breached the Settlement Agreement.

**F. COMMITMENTS AND CONTINGENCIES**

**1. State Approval of Enforceable Obligations**

The Successor Agency prepares a Recognized Obligation Payment Schedule (ROPS) semi-annually that contains all proposed expenditures for the subsequent six-month period. The ROPS is subject to the review and approval of the Oversight Board as well as the State Department of Finance. Although the State Department of Finance may not question items included on the ROPS in one period, they may question the same items in a future period and disallow associated activities. The amount, if any, of current obligations that may be denied by the State Department of Finance cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

**2. Long Range Property Management Plan**

In fiscal year 2013, the City filed suit against the County of Santa Clara and the State of California, claiming amongst other things, the unconstitutionality or other unlawfulness of the State legislation under which the State made its DDR orders. As discussed in Note 16E, the two cases were settled in June 2014 with a settlement agreement executed between the City, Economic Development Corporation, Housing Authority, Santa Clara County Auditor-Controller, State Controller and other parties.

Under the agreement, the Successor Agency and the County agreed to jointly prepare and submit the long range property management plan ("LRPMP") to the Oversight Board for review and approval, all pursuant to Health and Safety Code section 34191.5. The State Department of Finance approved the LRPMP in March 2015.

The LRPMP requires four of the properties discussed in Note 16B to be auctioned for sale and one parcel to be transferred to the County of Santa Clara for the County Health Clinic and other public parking. The parcel was transferred to the County in September 2015, and three of the four parcels were sold in fiscal year 2017. The Successor Agency approved a purchase and sale agreement for the last parcel in November 2017.



## **REQUIRED SUPPLEMENTARY INFORMATION**



**City of Milpitas**  
**Required Supplementary Information**  
**For the Year Ended June 30, 2017**

**Retiree Medical Benefits (OPEB) Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability	Unfunded (Overfunded) Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded (Overfunded) Actuarial Liability as Percentage of Covered Payroll
7/1/2011	\$19,032,986	\$48,698,709	\$29,665,723	39.08%	\$41,200,000	72.00%
7/1/2013	24,778,279	60,933,391	36,155,112	40.66%	35,200,000	102.71%
7/1/2015	32,569,037	72,175,202	39,606,165	45.12%	35,552,000	111.40%

**Retiree Medical Benefits (OPEB) Schedule of Contributions**

Fiscal Year	Annual OPEB Cost	Actual Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
June 30, 2015	\$3,848,712	\$3,848,712	100%	\$0
June 30, 2016	4,812,451	3,906,269	81%	906,182
June 30, 2017	4,997,651	4,092,321	82%	1,811,512

**City of Milpitas**  
**Required Supplementary Information**

**SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS**

Miscellaneous Plan - Agent Multiple-Employer Defined Pension Plan

Last 10 Years\*

Measurement Period	2013-14	2014-15	2015-16
<b>Total Pension Liability</b>			
Service Cost	\$2,652,510	\$2,664,628	\$2,666,665
Interest	13,600,615	14,114,152	14,689,192
Differences between expected and actual experience	-	(982,598)	(18,301)
Changes in assumptions	-	(3,463,459)	-
Changes in benefits	-	-	-
Benefit payments, including refunds of employee contributions	(8,381,334)	(8,930,516)	(9,558,779)
<b>Net change in total pension liability</b>	<b>7,871,791</b>	<b>3,402,207</b>	<b>7,778,777</b>
<b>Total pension liability - beginning</b>	<b>184,205,937</b>	<b>192,077,728</b>	<b>195,479,935</b>
<b>Total pension liability - ending (a)</b>	<b>\$192,077,728</b>	<b>\$195,479,935</b>	<b>\$203,258,712</b>
<b>Plan fiduciary net position</b>			
Contributions - employer	\$3,356,909	\$4,076,975	\$4,519,744
Contributions - employee	1,439,932	1,326,989	1,333,019
Net investment income	22,034,637	3,281,429	775,183
Administrative expense	-	(164,523)	(89,109)
Benefit payments, including refunds of employee contributions	(8,381,334)	(8,930,516)	(9,558,779)
Net Plan to Plan Resource Movement	-	-	(370)
<b>Net change in plan fiduciary net position</b>	<b>18,450,144</b>	<b>(409,646)</b>	<b>(3,020,312)</b>
<b>Plan fiduciary net position - beginning</b>	<b>128,172,005</b>	<b>146,622,149</b>	<b>146,212,503</b>
<b>Plan fiduciary net position - ending (b)</b>	<b>\$146,622,149</b>	<b>\$146,212,503</b>	<b>\$143,192,191</b>
 Net pension liability - ending (a)-(b)	 <b>\$45,455,579</b>	 <b>\$49,267,432</b>	 <b>\$60,066,521</b>
 Plan fiduciary net position as a percentage of the total pension liability	 76.33%	 74.80%	 70.45%
 Covered payroll	 <b>\$15,682,538</b>	 <b>\$16,009,660</b>	 <b>\$16,161,589</b>
 Net pension liability as percentage of covered payroll	 289.85%	 307.74%	 371.66%

**Benefit changes.** The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2014. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

**Changes in assumptions.** GASB 68, paragraph 68 states that the long long-term expected rate of return should be determined net of pension plan investment expense, but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense. All other assumptions for the June 30, 2014 measurement date were the same as those used for the June 30, 2015 and 2016 measurement dates.

\* Fiscal year 2015 was the first year of implementation.

**Source:** CalPERS Accounting Valuation

**City of Milpitas**  
**Required Supplementary Information**

**SCHEDULE OF CONTRIBUTIONS**

Miscellaneous Plan - Agent Multiple-Employer Defined Pension Plan  
Last 10 Years\*

<b>Fiscal Year Ended June 30</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Actuarially determined contribution	\$3,252,668	\$4,236,931	\$5,082,638
Contributions in relation to the actuarially determined contributions	3,252,668	4,236,931	5,082,638
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Covered payroll	\$16,009,660	\$16,161,589	\$16,418,123
Contributions as a percentage of covered payroll	20.32%	26.22%	30.96%
<b>Notes to Schedule</b>			
Valuation date:	6/30/2012	6/30/2013	6/30/2014
Methods and assumptions used to determine contribution rates:			
Actuarial cost method	Entry age		
Amortization method	Level percentage of payroll		
Remaining amortization period	16 Years as of the Valuation Date		
Asset valuation method	15 Year Smoothed Market		
Inflation	2.75%		
Salary increases	3.30% to 14.20% depending on Age, Service, and type of employment		
Investment rate of return	7.50%, net of pension plan investment expense, including inflation		
Retirement age	The probabilities of Retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.		
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.		

\* Fiscal year 2015 was the 1st year of implementation.

Source: City of Milpitas' general ledger and CalPERS Actuarial Valuation

**City of Milpitas**  
**Required Supplementary Information**

**SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS**

Safety Plan - Agent Multiple-Employer Defined Pension Plan  
Last 10 Years\*

Measurement Period	2013-14	2014-15	2015-16
<b>Total Pension Liability</b>			
Service Cost	\$4,932,970	\$4,808,751	\$5,094,318
Interest	19,838,662	20,535,893	21,663,378
Differences between expected and actual experience	-	(2,363,470)	3,274,330
Changes in assumptions	-	(5,052,089)	-
Changes in benefits	-	-	-
Benefit payments, including refunds of employee contributions	(13,076,629)	(13,656,196)	(14,390,575)
<b>Net change in total pension liability</b>	<b>11,695,003</b>	<b>4,272,889</b>	<b>15,641,451</b>
<b>Total pension liability - beginning</b>	<b>268,587,329</b>	<b>280,282,332</b>	<b>284,555,221</b>
<b>Total pension liability - ending (a)</b>	<b>\$280,282,332</b>	<b>\$284,555,221</b>	<b>\$300,196,672</b>
<b>Plan fiduciary net position</b>			
Contributions - employer	\$5,856,270	\$6,604,951	\$7,230,399
Contributions - employee	1,839,234	1,887,408	2,064,277
Net investment income	30,157,647	4,420,615	1,031,136
Administrative expense		(224,227)	(121,445)
Benefit payments, including refunds of employee contributions	(13,076,629)	(13,656,196)	(14,390,575)
<b>Net change in plan fiduciary net position</b>	<b>24,776,522</b>	<b>(967,449)</b>	<b>(4,186,208)</b>
<b>Plan fiduciary net position - beginning</b>	<b>175,461,012</b>	<b>200,237,534</b>	<b>199,270,085</b>
<b>Plan fiduciary net position - ending (b)</b>	<b>\$200,237,534</b>	<b>\$199,270,085</b>	<b>\$195,083,877</b>
 Net pension liability - ending (a)-(b)	 <b>\$80,044,798</b>	 <b>\$85,285,136</b>	 <b>\$105,112,795</b>
 Plan fiduciary net position as a percentage of the total pension liability	 71.44%	 70.03%	 64.99%
 Covered payroll	 <b>\$18,310,535</b>	 <b>\$18,810,920</b>	 <b>\$20,170,400</b>
 Net pension liability as percentage of covered payroll	 437.15%	 453.38%	 521.12%

**Notes to Schedule:**

**Benefit changes.** The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2013. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

**Changes in assumptions.** GASB 68, paragraph 68 states that the long long-term expected rate of return should be determined net of pension plan investment expense, but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense. All other assumptions for the June 30, 2014 measurement date were the same as those used for the June 30, 2015 and 2016 measurement dates.

\* Fiscal year 2015 was the 1st year of implementation.

**Source:** CalPERS Accounting Valuation



**City of Milpitas**  
**Required Supplementary Information**

**SCHEDULE OF CONTRIBUTIONS**

Safety Plan - Agent Multiple-Employer Defined Pension Plan  
Last 10 Years\*

<b>Fiscal Year Ended June 30</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Actuarially determined contribution	\$5,904,019	\$7,346,983	\$8,741,506
Contributions in relation to the actuarially determined contributions	5,904,019	7,346,983	8,741,506
Contribution deficiency (excess)	\$0	\$0	\$0
Covered payroll	\$18,810,920	\$20,170,400	\$21,078,669
Contributions as a percentage of covered payroll	31.39%	36.42%	41.47%
<b>Notes to Schedule</b>			
Valuation date:	6/30/2012	6/30/2013	6/30/2014

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll
Remaining amortization period	28 Years as of the Valuation Date
Asset valuation method	15 Year Smoothed Market
Inflation	2.75%
Salary increases	3.30% to 14.20% depending on Age, Service, and
Investment rate of return	7.50%, net of pension plan investment expense, The probabilities of Retirement are based on the
Retirement age	2010 CalPERS Experience Study for the period
	The probabilities of mortality are based on the
	2010 CalPERS Experience Study for the period
	from 1997 to 2007. Pre-retirement and Post-
	retirement mortality rates include 5 years of
	projected mortality improvement using Scale AA
Mortality	published by the Society of Actuaries.

\* Fiscal year 2015 was the 1st year of implementation.

Source: City of Milpitas' general ledger and CalPERS Actuarial Valuation



## **NON-MAJOR GOVERNMENTAL FUNDS**

### **SPECIAL REVENUE FUNDS:**

#### **GAS TAX FUND**

Established to account for the City's share of state gasoline taxes which are restricted for use on construction and maintenance of the street system in Milpitas.

#### **HOUSING AND COMMUNITY DEVELOPMENT FUND**

Established to account for community development block grants and expenditures.

#### **LAW ENFORCEMENT SERVICES FUND**

Established to account for the proceeds from Federal and State asset seizures. This fund also accounts for the Supplemental Law Enforcement Services grant, Local Law Enforcement Block grant, Justice Assistance grant and expenditures. These funds must be used only for specified law enforcement purposes.

#### **SOLID WASTE REDUCTION AND SERVICES FUND**

Established to account for landfill tipping fees allocated by Santa Clara County. The County allocates a fee of \$1 per ton to each City to be used in relation to the State of California Waste Reduction Act. Revenue is used for the implementation of waste reduction programs to meet the State required landfill deposits percentage reduction. The fund also accounts for special charges built into garbage rates specifically for community promotions and household hazardous waste activities.

#### **LIGHTING AND LANDSCAPE MAINTENANCE DISTRICT FUND**

Established to account for assessments collected within the district. Revenue is used for servicing and maintaining the public landscaping and additional lighting for the district.

#### **COMMUNITY FACILITIES DISTRICT FUND**

Established to account for assessments collected within the district. Revenue is used for providing City services for the district.

#### **HETCH-HETCHY GROUND LEASE FUND**

Established to account for the lease payment to the City and County of San Francisco for the permitted use of the Hetch-Hetchy land.

#### **COMMUNITY PLANNING FUND**

Established to account for fees collected to fund the General Plan update, zoning ordinance update and other long range planning documents.

### **CAPITAL PROJECTS FUNDS:**

#### **PUBLIC ART FUND**

Established to account for the acquisition and installation of public art. Financing provided by a percentage of eligible project expenditures within the City's Annual Capital Improvement Program.

#### **PARK IMPROVEMENT FUND**

Established to account for the construction and maintenance of City parks. A special park improvement fee is imposed on developments to provide financing.

#### **STORM DRAIN DEVELOPMENT FUND**

Established to account for the construction and maintenance of storm drain projects. A special storm drain fee is imposed on developments to provide financing.





CITY OF MILPITAS  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEETS  
JUNE 30, 2017

	SPECIAL REVENUE FUNDS				
	Gas Tax	Housing and Community Development	Law Enforcement Services	Solid Waste Reduction and Services	Lighting and Landscape Maintenance District
ASSETS					
Cash and investments available for operations	\$1,733,794		\$321,802	\$1,655,048	\$243,315
Receivables:					
Accounts				83,896	
Due from other governments		\$122,166	19,516		
Interest	4,583		930	4,358	839
Loans receivable		3,470,120			
Prepays, materials, supplies and deposits		1,616		2,161	516
Total Assets	<u>\$1,738,377</u>	<u>\$3,593,902</u>	<u>\$342,248</u>	<u>\$1,745,463</u>	<u>\$244,670</u>
LIABILITIES					
Accounts payable		\$112,510	\$13,923	\$42,463	\$11,601
Accrued payroll		838		3,394	452
Unearned revenue			218,722	16,273	
Refundable deposits				18,843	
Due to other funds		7,151			
Total Liabilities		<u>120,499</u>	<u>232,645</u>	<u>80,973</u>	<u>12,053</u>
FUND BALANCE					
Fund Balances:					
Nonspendable		1,616		2,161	516
Restricted	\$1,738,377	3,471,787	109,603	1,662,329	232,101
Assigned					
Total Fund Balances	<u>1,738,377</u>	<u>3,473,403</u>	<u>109,603</u>	<u>1,664,490</u>	<u>232,617</u>
Total Liabilities and Fund Balances	<u>\$1,738,377</u>	<u>\$3,593,902</u>	<u>\$342,248</u>	<u>\$1,745,463</u>	<u>\$244,670</u>

SPECIAL REVENUE FUNDS			CAPITAL PROJECTS FUNDS			Total Nonmajor Governmental Funds
Community Facilities District	Hetch-Hetchy Ground Lease	Community Planning	Public Art	Park Improvement	Storm Drain Development	
\$807,493	\$1,628,286	\$625,122	\$256,636	\$11,515,865	\$6,282,482	\$25,069,843
						83,896
						141,682
3,999	211	1,649	679	30,500	15,256	63,004
						3,470,120
3,072	2,721					10,086
<u>\$814,564</u>	<u>\$1,631,218</u>	<u>\$626,771</u>	<u>\$257,315</u>	<u>\$11,546,365</u>	<u>\$6,297,738</u>	<u>\$28,838,631</u>
\$88,222		\$29,007		\$459,204	\$91,712	\$848,642
7,275				5,565		17,524
						234,995
						18,843
						7,151
<u>95,497</u>	<u></u>	<u>29,007</u>	<u></u>	<u>464,769</u>	<u>91,712</u>	<u>1,127,155</u>
3,072	\$2,721					10,086
715,995	1,628,497	597,764		11,081,596	6,206,026	27,444,075
			\$257,315			257,315
<u>719,067</u>	<u>1,631,218</u>	<u>597,764</u>	<u>257,315</u>	<u>11,081,596</u>	<u>6,206,026</u>	<u>27,711,476</u>
<u>\$814,564</u>	<u>\$1,631,218</u>	<u>\$626,771</u>	<u>\$257,315</u>	<u>\$11,546,365</u>	<u>\$6,297,738</u>	<u>\$28,838,631</u>

CITY OF MILPITAS  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENTS OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2017

	SPECIAL REVENUE FUNDS				
	Gas Tax	Housing & Community Development	Law Enforcement Services	Solid Waste Reduction and Services	Lighting and Landscape Maintenance District
REVENUES:					
Other taxes				\$432,269	\$343,888
Use of money and property	\$7,649	\$1,162	\$2,881	9,763	1,905
Intergovernmental	1,442,460	514,861	230,752	228,437	
Charges for services				323,247	
Developer contributions					
Other				2,918	
Total Revenues	1,450,109	516,023	233,633	996,634	345,793
EXPENDITURES:					
Current:					
General Government		18,500		30,015	
Public Works				8,000	222,664
Engineering				680,146	8,289
Planning		458,061			
Police			258,406		
Capital outlay			22,896		
Total Expenditures		476,561	281,302	718,161	230,953
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,450,109	39,462	(47,669)	278,473	114,840
OTHER FINANCING SOURCES (USES)					
Transfers in					
Transfers (out)	(2,950,000)			(482,000)	(93,256)
Total Other Financing Sources (Uses)	(2,950,000)			(482,000)	(93,256)
NET CHANGE IN FUND BALANCES	(1,499,891)	39,462	(47,669)	(203,527)	21,584
Fund balances at beginning of year	3,238,268	3,433,941	157,272	1,868,017	211,033
FUND BALANCES AT END OF YEAR	\$1,738,377	\$3,473,403	\$109,603	\$1,664,490	\$232,617



SPECIAL REVENUE FUNDS			CAPITAL PROJECTS FUNDS			Total Nonmajor Governmental Funds
Community Facilities District	Hetch-Hetchy Ground Lease	Community Planning	Public Art	Park Improvement	Storm Drain Development	
\$1,710,963						\$2,487,120
8,150	\$15,097	\$4,020	(\$109)	(\$31,222)	\$36,394	55,690
		509,750			49,640	2,466,150
					1,675,400	832,997
			147,267			1,675,400
						150,185
1,719,113	15,097	513,770	147,158	(31,222)	1,761,434	7,667,542
5,978	31,834		7,500			93,827
689,316						919,980
		29,007				688,435
				2,465,932	305,180	487,068
						258,406
						2,794,008
695,294	31,834	29,007	7,500	2,465,932	305,180	5,241,724
1,023,819	(16,737)	484,763	139,658	(2,497,154)	1,456,254	2,425,818
(859,000)		(200,000)		400,000	1,330,000	1,730,000
				(450,000)	(164,838)	(5,199,094)
(859,000)		(200,000)		(50,000)	1,165,162	(3,469,094)
164,819	(16,737)	284,763	139,658	(2,547,154)	2,621,416	(1,043,276)
554,248	1,647,955	313,001	117,657	13,628,750	3,584,610	28,754,752
\$719,067	\$1,631,218	\$597,764	\$257,315	\$11,081,596	\$6,206,026	\$27,711,476

CITY OF MILPITAS  
BUDGETED NON-MAJOR FUNDS  
COMBINING SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)  
FOR THE YEAR ENDED JUNE 30, 2017

	GAS TAX			HOUSING AND COMMUNITY DEVELOPMENT		
	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)
REVENUES						
Other taxes						
Use of money and property	\$29,500	\$7,649	(\$21,851)	\$2,000	\$1,162	(\$838)
Intergovernmental	1,488,086	1,442,460	(45,626)	375,000	514,861	139,861
Charges for services						
Developer contributions						
Other						
Total Revenues	<u>1,517,586</u>	<u>1,450,109</u>	<u>(67,477)</u>	<u>377,000</u>	<u>516,023</u>	<u>139,023</u>
EXPENDITURES						
Current:						
General Government:						
Finance				15,000	15,000	
Non-departmental				11,848	3,500	8,348
Public Works						
Engineering						
Planning and Neighborhood Services				728,000	610,970	117,030
Police						
Total Expenditures	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>754,848</u>	<u>629,470</u>	<u>125,378</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>1,517,586</u>	<u>1,450,109</u>	<u>(67,477)</u>	<u>(377,848)</u>	<u>(113,447)</u>	<u>264,401</u>
OTHER FINANCING SOURCES (USES)						
Transfers in						
Transfers (out)	<u>(2,950,000)</u>	<u>(2,950,000)</u>				
Total Other Financing Sources (Uses)	<u>(2,950,000)</u>	<u>(2,950,000)</u>				
NET CHANGE IN FUND BALANCES	<u>(\$1,432,414)</u>	<u>(1,499,891)</u>	<u>(\$67,477)</u>	<u>(\$377,848)</u>	<u>(113,447)</u>	<u>\$264,401</u>
ADJUSTMENT TO BUDGETARY BASIS:						
Expenditures capitalized for GAAP purposes					152,909	
Capital Outlay						
Encumbrance adjustments						
Fund balances at beginning of year		<u>3,238,268</u>			<u>3,433,941</u>	
Fund balances at end of year		<u>\$1,738,377</u>			<u>\$3,473,403</u>	

LAW ENFORCEMENT SERVICES			SOLID WASTE REDUCTION AND SERVICES			LIGHTING AND LANDSCAPING MAINTENANCE DISTRICT		
Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)
			\$415,000	\$432,269	\$17,269	\$320,000	\$343,888	\$23,888
\$1,800	\$2,881	\$1,081	17,000	9,763	(7,237)	1,000	1,905	905
271,872	230,752	(41,120)	204,132	228,437	24,305			
			330,000	323,247	(6,753)			
				2,918	2,918			
273,672	233,633	(40,039)	966,132	996,634	30,502	321,000	345,793	24,793
			35,700	30,015	5,685			
			8,000	8,000		272,139	222,664	49,475
			696,820	688,396	8,424		11,225	(11,225)
343,808	258,406	85,402						
343,808	258,406	85,402	740,520	726,411	14,109	272,139	233,889	38,250
(70,136)	(24,773)	45,363	225,612	270,223	44,611	48,861	111,904	63,043
			(482,000)	(482,000)		(18,256)	(93,256)	(75,000)
			(482,000)	(482,000)		(18,256)	(93,256)	(75,000)
(\$70,136)	(24,773)	\$45,363	(\$256,388)	(211,777)	\$44,611	\$30,605	18,648	(\$11,957)
	(22,896)							
				8,250			2,936	
	157,272			1,868,017			211,033	
	\$109,603			\$1,664,490			\$232,617	

(Continued)

CITY OF MILPITAS  
BUDGETED NON-MAJOR FUNDS  
COMBINING SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL (NON-GAAP LEGAL BASIS)  
FOR THE YEAR ENDED JUNE 30, 2017

	COMMUNITY FACILITIES DISTRICT			HETCH-HETCHY GROUND LEASE		
	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)
REVENUES						
Other taxes	\$1,465,000	\$1,710,963	\$245,963			
Use of money and property		8,150	8,150	\$17,000	\$15,097	(\$1,903)
Intergovernmental						
Charges for services						
Developer contributions						
Other						
Total Revenues	<u>1,465,000</u>	<u>1,719,113</u>	<u>254,113</u>	<u>17,000</u>	<u>15,097</u>	<u>(1,903)</u>
EXPENDITURES						
Current:						
General Government:						
Finance						
Non-departmental	8,000	5,978	2,022	35,000	31,834	3,166
Public Works	1,188,197	689,316	498,881			
Engineering						
Planning and Neighborhood Services						
Police						
Total Expenditures	<u>1,196,197</u>	<u>695,294</u>	<u>500,903</u>	<u>35,000</u>	<u>31,834</u>	<u>3,166</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>268,803</u>	<u>1,023,819</u>	<u>755,016</u>	<u>(18,000)</u>	<u>(16,737)</u>	<u>1,263</u>
OTHER FINANCING SOURCES (USES)						
Transfers in						
Transfers (out)	<u>(859,000)</u>	<u>(859,000)</u>				
Total Other Financing Sources (Uses)	<u>(859,000)</u>	<u>(859,000)</u>				
NET CHANGE IN FUND BALANCES	<u>(\$590,197)</u>	<u>164,819</u>	<u>\$755,016</u>	<u>(\$18,000)</u>	<u>(16,737)</u>	<u>\$1,263</u>
ADJUSTMENT TO BUDGETARY BASIS:						
Expenditures capitalized for GAAP purposes						
Capital Outlay						
Encumbrance adjustments						
Fund balances at beginning of year		<u>554,248</u>			<u>1,647,955</u>	
Fund balances at end of year		<u>\$719,067</u>			<u>\$1,631,218</u>	

COMMUNITY PLANNING			PUBLIC ART			TOTALS		
Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)	Budget	Actual Amounts Budgetary Basis	Variance Positive (Negative)
						\$2,200,000	\$2,487,120	\$287,120
\$1,000	\$4,020	\$3,020		(\$109)	(\$109)	69,300	50,518	(18,782)
200,000	509,750	309,750				2,339,090	2,416,510	77,420
				147,267	147,267	530,000	832,997	302,997
			\$6,000		(6,000)		147,267	147,267
						6,000	2,918	(3,082)
201,000	513,770	312,770	6,000	147,158	141,158	5,144,390	5,937,330	792,940
			22,000	7,500	14,500	15,000	15,000	
						112,548	78,827	33,721
						1,468,336	919,980	548,356
29,007	29,007					696,820	699,621	(2,801)
						757,007	639,977	117,030
						343,808	258,406	85,402
29,007	29,007		22,000	7,500	14,500	3,393,519	2,611,811	781,708
171,993	484,763	312,770	(16,000)	139,658	155,658	1,750,871	3,325,519	1,574,648
(200,000)	(200,000)					(4,509,256)	(4,584,256)	(75,000)
(200,000)	(200,000)					(4,509,256)	(4,584,256)	(75,000)
(\$28,007)	284,763	\$312,770	(\$16,000)	139,658	\$155,658	(\$2,758,385)	(1,258,737)	\$1,499,648
							152,909	
							(22,896)	
							11,186	
	313,001			117,657			11,541,392	
	\$597,764			\$257,315			\$10,423,854	



## **AGENCY FUNDS**

Financial reporting standards require that Agency Funds be presented separately from the Government-wide and Fund financial statements.

Agency Funds account for assets held by the City as agent for individuals, government entities, and non-public organizations. These funds include the following:

### **EMPLOYEE BENEFITS FUND**

Established to account for specific negotiated employee benefits.

### **SENIOR ADVISORY COMMISSION FUND**

Established to account for the fund raising activities of the Commission.

### **LOCAL IMPROVEMENT DISTRICT (LID) FUNDS**

Established to account for debt service reserves of Local Improvement Districts (LIDs) for which the City acts as administrator and paying agent. The City is not obligated for the debt issued by the LIDs.





CITY OF MILPITAS  
AGENCY FUNDS  
STATEMENTS OF CHANGES IN ASSETS AND LIABILITIES  
FOR THE YEAR ENDED JUNE 30, 2017

	Balance June 30, 2016	Additions	Deductions	Balance June 30, 2017
<u>Employee Benefit</u>				
<u>Assets</u>				
Cash and investments available for operations	\$1,480,385	\$12,656	\$216,048	\$1,276,993
Receivables:				
Interest	5,491	3,397	5,491	3,397
Total Assets	<u>\$1,485,876</u>	<u>\$16,053</u>	<u>\$221,539</u>	<u>\$1,280,390</u>
<u>Liabilities</u>				
Refundable deposits	<u>\$1,485,876</u>	<u>\$16,053</u>	<u>\$221,539</u>	<u>\$1,280,390</u>
Total Liabilities	<u>\$1,485,876</u>	<u>\$16,053</u>	<u>\$221,539</u>	<u>\$1,280,390</u>
<u>Senior Advisory Commission</u>				
<u>Assets</u>				
Cash and investments available for operations	\$8,209	\$1,781	\$1,138	\$8,852
Receivables:				
Interest	30	23	30	23
Total Assets	<u>\$8,239</u>	<u>\$1,804</u>	<u>\$1,168</u>	<u>\$8,875</u>
<u>Liabilities</u>				
Refundable deposits	<u>\$8,239</u>	<u>\$1,804</u>	<u>\$1,168</u>	<u>\$8,875</u>
Total Liabilities	<u>\$8,239</u>	<u>\$1,804</u>	<u>\$1,168</u>	<u>\$8,875</u>
<u>LID #18 - Reassessment and Refunding</u>				
<u>Assets</u>				
Cash and investments available for operations	\$336,347	\$317,441	\$299,904	\$353,884
Cash and investments held by trustees	256,789	1,134	997	256,926
Receivable:				
Interest	1,264	939	1,264	939
Total Assets	<u>\$594,400</u>	<u>\$319,514</u>	<u>\$302,165</u>	<u>\$611,749</u>
<u>Liabilities</u>				
Due to Local Improvement Districts	<u>\$594,400</u>	<u>\$319,514</u>	<u>\$302,165</u>	<u>\$611,749</u>
Total Liabilities	<u>\$594,400</u>	<u>\$319,514</u>	<u>\$302,165</u>	<u>\$611,749</u>

CITY OF MILPITAS  
AGENCY FUNDS  
STATEMENTS OF CHANGES IN ASSETS AND LIABILITIES  
FOR THE YEAR ENDED JUNE 30, 2017

	Balance June 30, 2016	Additions	Deductions	Balance June 30, 2017
<hr/> LID #20 <hr/>				
<u>Assets</u>				
Cash and investments available for operations	\$1,482,119	\$1,483,199	\$1,384,797	\$1,580,521
Cash and investments held by trustees	1,217,964	1,415	756	1,218,623
Receivables:				
Interest	5,503	4,172	5,503	4,172
Total Assets	<u>\$2,705,586</u>	<u>\$1,488,786</u>	<u>\$1,391,056</u>	<u>\$2,803,316</u>
<u>Liabilities</u>				
Due to Local Improvement Districts	<u>\$2,705,586</u>	<u>\$1,488,786</u>	<u>\$1,391,056</u>	<u>\$2,803,316</u>
Total Liabilities	<u>\$2,705,586</u>	<u>\$1,488,786</u>	<u>\$1,391,056</u>	<u>\$2,803,316</u>
<hr/> TOTAL AGENCY FUNDS <hr/>				
<u>Assets</u>				
Cash and investments available for operations	\$3,307,060	\$1,815,077	\$1,901,887	\$3,220,250
Cash and investments held by trustees	1,474,753	2,549	1,753	1,475,549
Receivables:				
Interest	12,288	8,531	12,288	8,531
Total Assets	<u>\$4,794,101</u>	<u>\$1,826,157</u>	<u>\$1,915,928</u>	<u>\$4,704,330</u>
<u>Liabilities</u>				
Refundable deposits	\$1,494,115	\$17,857	\$222,707	\$1,289,265
Due to Local Improvement Districts	<u>3,299,986</u>	<u>1,808,300</u>	<u>1,693,221</u>	<u>3,415,065</u>
Total Liabilities	<u>\$4,794,101</u>	<u>\$1,826,157</u>	<u>\$1,915,928</u>	<u>\$4,704,330</u>

## STATISTICAL SECTION

This part of the City's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health. In contrast to the financial section, the statistical section information is not subject to independent audit.

### ***Financial Trends***

These schedules contain trend information to help the reader understand how the City's financial performance and wellbeing have changed over time:

- Net Position – Schedule 1
- Changes in Net Position – Schedule 2
- Fund Balances, Governmental Funds – Schedule 3
- Changes in Fund Balance, Governmental Funds – Schedule 4

### ***Revenue Capacity***

These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax:

- Assessed Value and Actual Value of Taxable Property – Schedule 5
- Direct and Overlapping Property Taxes Rates – Schedule 6
- Principal Property Taxpayers – Schedule 7
- Property Tax Levies and Collections – Schedule 8
- Taxable Sales by Category – Schedule 9
- Direct and Overlapping Sales Tax Rates – Schedule 10
- Principal Sales Tax Payers – Schedule 11

### ***Debt Capacity***

These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future:

- Ratios of Outstanding Debt by Type – Schedule 12
- Bonded Debt Pledged Revenue Coverage, Redevelopment Agency Tax Allocation Bonds – Schedule 13
- Computation of Direct and Overlapping Debt – Schedule 14
- Legal Debt Margin Information – Schedule 15
- Installment Payment Coverage, Sewer Certificates of Participation – Schedule 16

### ***Demographic and Economic Information***

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place:

- Bimonthly Sewer Rates by Customer Class – Schedule 17
- Demographic and Economic Statistics – Schedule 18
- Principal Employers – Schedule 19

### ***Operating Information***

These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs:

- Authorized Full-Time Equivalent Employees by Function/Program – Schedule 20
- Operating Indicators by Function/Program – Schedule 21
- Capital Asset Statistics by Function/Program – Schedule 22

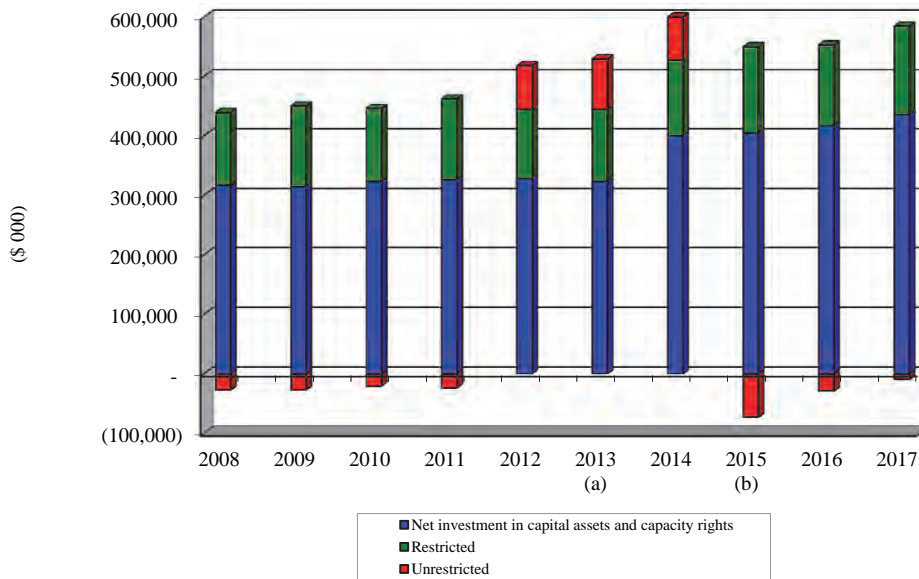
### ***Sources***

Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year.



City of Milpitas  
NET POSITION  
LAST TEN FISCAL YEARS  
(Accrual basis of accounting)  
(Dollars in Thousands)

Schedule 1



Fiscal Year Ended June 30					
	2008	2009	2010	2011	2012
Governmental activities					
Net investment in capital assets and capacity rights	\$224,603	\$221,744	\$218,878	\$218,116	\$219,034
Restricted	104,161	110,463	98,426	115,474	90,878
Unrestricted	(50,764)	(41,574)	(38,500)	(44,592)	53,417
Total governmental activities net position	\$278,000	\$290,633	\$278,804	\$288,998	\$363,329
Business-type activities					
Net investment in capital assets and capacity rights	\$92,028	\$92,576	\$104,370	\$107,707	\$109,146
Restricted	18,252	24,911	24,059	20,743	25,239
Unrestricted	23,603	14,172	17,851	20,577	19,838
Total business-type activities net position	\$133,883	\$131,659	\$146,280	\$149,027	\$154,223
Primary government					
Net investment in capital assets and capacity rights	\$316,631	\$314,320	\$323,248	\$325,823	\$328,180
Restricted	122,413	135,374	122,485	136,217	116,117
Unrestricted	(27,161)	(27,402)	(20,649)	(24,015)	73,255
Total primary government net position	\$411,883	\$422,292	\$425,084	\$438,025	\$517,552
Fiscal Year Ended June 30					
	2013 (a)	2014	2015 (b)	2016	2017
Governmental activities					
Net investment in capital assets and capacity rights	\$217,002	\$291,704	\$291,500	\$298,321	\$312,138
Restricted	88,147	90,758	103,829	100,327	108,630
Unrestricted	64,876	51,315	(84,598)	(44,368)	(30,091)
Total governmental activities net position	\$370,025	\$433,777	\$310,731	\$354,280	\$390,677
Business-type activities					
Net investment in capital assets and capacity rights	\$106,489	\$107,816	\$113,232	\$118,588	\$122,937
Restricted	32,889	37,254	40,867	35,130	40,311
Unrestricted	19,799	20,880	11,586	15,261	20,254
Total business-type activities net position	\$159,177	\$165,950	\$165,685	\$168,979	\$183,502
Primary government					
Net investment in capital assets and capacity rights	\$323,491	\$399,520	\$404,732	\$416,909	\$435,075
Restricted	121,036	128,012	144,696	135,457	148,941
Unrestricted	84,675	72,195	(73,012)	(29,107)	(9,837)
Total primary government net position	\$529,202	\$599,727	\$476,416	\$523,259	\$574,179

- (a) The City implemented the provisions of GASB Statement 63 in fiscal year 2013, which replaced the term "net assets" with the term "net position"
- (b) The City implemented the provisions of GASB Statement 68 in fiscal year 2015 that required the restatement of net position. Amounts prior to 2015 have not been restated.

**CITY OF MILPITAS**  
**CHANGES IN NET POSITION**  
**LAST TEN FISCAL YEARS**  
(accrual basis of accounting)  
(Dollars in Thousands)

	Fiscal Year Ended June 30,			
	2008	2009	2010	2011
<b>Expenses</b>				
Governmental activities				
General Government	\$18,130	\$18,184	\$33,535 (a)	\$21,474 (a)
Building and Safety	2,626	2,401	1,972	1,984
Public Works	20,745	19,605	22,843	16,777
Engineering				
Planning and Neighborhood Services	3,239	3,249	2,874	2,155
Parks and Recreation	6,527	6,518	6,096	6,529
Police	22,440	22,514	22,771	22,661
Fire	15,411	15,260	14,748	15,085
Interest on Long Term Debt	11,534	9,402	9,570	9,536
Total governmental activities expenses	100,652	97,133	114,409	96,201
Business-type activities				
Water Utility	11,567	12,545	11,788	12,766
Recycled Water Utility	481	576	476	470
Sewer Utility	8,626	12,312	8,730	9,240
Total business-type activities expenses	20,674	25,433	20,994	22,476
Total primary government expenses	\$121,326	\$122,566	\$135,403	\$118,677
<b>Program Revenues</b>				
Governmental activities:				
Charges for services:				
General Government	\$996	\$956	\$1,165	\$1,071
Building and Safety	4,194	2,897	2,031	2,823
Public Works	2,410	1,996	2,571	1,826
Engineering				
Planning and Neighborhood Services	459	358	182	139
Parks and Recreation	1,663	1,655	1,642	1,662
Police	1,351	1,425	1,091	1,263
Fire	1,144	1,108	1,137	1,210
Operating grants and contributions	4,617	4,920	3,892	4,869
Capital grants and contributions	15,242	9,801	8,840	5,704
Total government activities program revenues	32,076	25,116	22,551	20,567
Business-type activities				
Charges for services:				
Water Utility	14,937	13,873	14,051	15,201
Recycled Water Utility	1,323	1,288	1,260	1,300
Sewer Utility	10,041	9,849	10,393	11,406
Operating grants and contributions			79	70
Capital grants and contributions	956	471	6,406	163
Total business-type activities program revenue	27,257	25,481	32,189	28,140
Total primary government program revenues	\$59,333	\$50,597	\$54,740	\$48,707
<b>Net (Expense)/Revenue</b>				
Governmental activities	(\$68,576)	(\$72,017)	(\$91,858)	(\$75,634)
Business-type activities	6,583	48	11,195	5,664
Total primary government net expense	(\$61,993)	(\$71,969)	(\$80,663)	(\$69,970)

(a) In 2011, the Redevelopment Agency began reporting tax increment gross of pass-through payments and administrative fees withheld by the County. Years prior to 2010 have not been restated to reflect this change in presentation.

(b) The Redevelopment Agency was dissolved as of January 31, 2012.

(c) The City implemented the provisions of GASB Statement 63 in fiscal year 2013, which replaced the term "net assets" with the term "net position."

(d) The parks division is part of the Public Works department beginning in fiscal year 2013.

(e) Beginning in fiscal year 2013, the Recycled Water Utility is part of the Water Utility.

(f) Under the terms of a settlement agreement with the County Auditor - Controller, Successor Agency to the Milpitas Redevelopment Agency and other parties, the City and Economic Development Corporation transferred cash and certain capital assets to the Successor Agency and received certain capital assets from the Successor Agency.

(g) Public Works and Engineering are separate departments beginning in fiscal year 2016.

2012	2013	(c)	2014	2015	2016	2017
\$17,418	(b)	\$15,329	\$21,074	\$18,118	\$18,614	\$21,174
2,029		2,293	2,684	2,617	2,513	3,389
21,787		17,700	(d)	18,664	17,509	12,761
					5,790	(g)
2,144		2,553		2,372	2,649	3,103
5,823		3,107	(d)	3,098	4,090	4,949
22,620		21,702		24,699	24,556	30,270
14,904		15,810		16,301	16,400	20,499
2,050		227		67	56	48
88,775		78,721		84,781	87,429	105,947
15,229		17,195		18,344	19,743	20,666
599		(e)		(e)	(e)	(e)
8,399		9,418		11,008	10,872	9,969
24,227		26,613		28,770	30,615	30,635
\$113,002		\$105,334		\$113,551	\$118,044	\$136,582
\$1,349		\$1,700		\$1,819	\$1,063	\$2,065
3,436		4,554		6,445	5,128	5,963
2,440		2,668		2,472	2,644	(g)
						(g)
					2,863	(g)
237		301		432	700	747
1,833		1,987		1,958	2,060	1,981
1,134		1,051		1,091	1,151	1,138
1,292		1,508		2,120	1,885	2,440
6,146		7,487		6,195	6,201	7,320
8,294		8,286		15,483	14,711	35,195
26,161		29,542		38,015	35,543	59,712
16,773		19,801		21,354	21,136	18,709
1,447		(e)		(e)	(e)	(e)
12,445		12,632		12,753	14,453	15,964
43		111		57	127	63
1,629		1,975		1,402	710	1,103
32,337		34,519		35,566	36,426	35,839
\$58,498		\$64,061		\$73,581	\$71,969	\$95,551
(\$62,614)		(\$49,179)		(\$48,310)	(\$49,238)	(\$27,717)
8,110		7,906		7,189	7,656	5,224
(\$54,504)		(\$41,273)		(\$41,121)	(\$41,582)	(\$22,493)

(Continued)

CITY OF MILPITAS  
CHANGES IN NET POSITION  
LAST TEN FISCAL YEARS  
(accrual basis of accounting)  
(Dollars in Thousands)

	Fiscal Year Ended June 30,			
	2008	2009	2010	2011
<b>General Revenues and Other Changes in Net Position</b>				
Governmental activities				
Taxes:				
Property taxes	\$49,061	\$53,917	\$58,012 (a)	\$55,655 (a)
Less: Educational Revenue Augmentation				
Fund payment				
Sales and use taxes	15,551	15,670	14,725	16,429
Hotel/Motel taxes	7,195	5,550	5,297	6,124
Other taxes	602	416	407	380
Franchise fees	2,968	3,151	2,993	3,083
Motor vehicle in lieu	296	237	209	323
Investment earnings	4,100	1,553	700	399
Gain on sale of capital assets/property	34	35	171	
Miscellaneous	109	92	85	62
Redevelopment expense				
Transfers	3,411	4,029	(2,570)	3,374
Extraordinary item				
Special Item				
Total government activities	83,327	84,650	80,029	85,829
Business-type activities				
Investment earnings	2,580	1,756	857	455
Transfers	(3,411)	(4,029)	2,570	(3,374)
Total business-type activities	(831)	(2,273)	3,427	(2,919)
Total primary government	\$82,496	\$82,377	\$83,456	\$82,910
<b>Change in net position</b>				
Governmental activities	\$14,751	\$12,633	(\$11,829)	\$10,195
Business-type activities	5,752	(2,225)	14,622	2,745
Total primary government	\$20,503	\$10,408	\$2,793	\$12,940

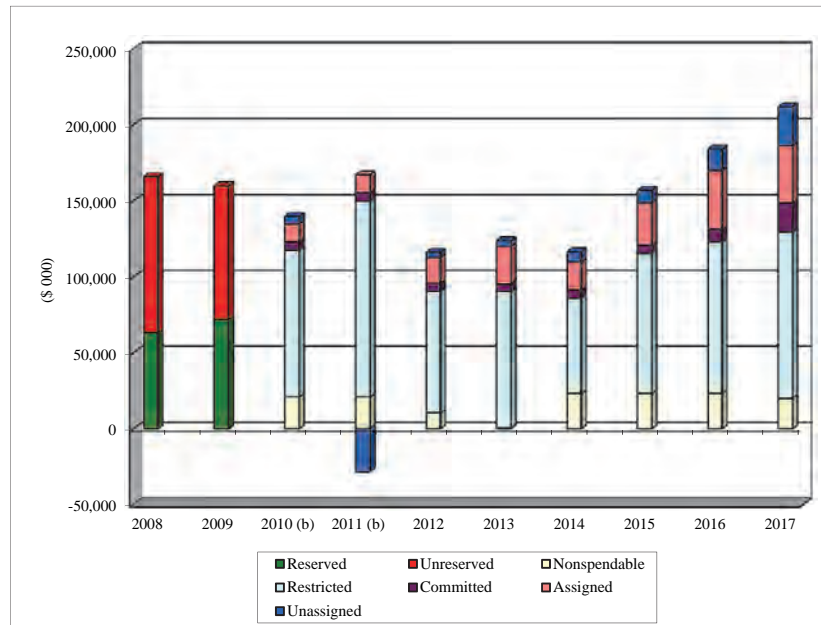
- (a) In 2011, the Redevelopment Agency began reporting tax increment gross of pass-through payments and administrative fees withheld by the County. Years prior to 2010 have not been restated to reflect this change in presentation.
- (b) The Redevelopment Agency was dissolved as of January 31, 2012.
- (c) The City implemented the provisions of GASB Statement 63 in fiscal year 2013, which replaced the term "net assets" with the term "net position."
- (d) The parks division is part of the Public Works department beginning in fiscal year 2013.
- (e) Beginning in fiscal year 2013, the Recycled Water Utility is part of the Water Utility.
- (f) Under the terms of a settlement agreement with the County Auditor - Controller, Successor Agency to the Milpitas Redevelopment Agency and other parties, the City and Economic Development Corporation transferred cash and certain capital assets to the Successor Agency and received certain capital assets from the Successor Agency.
- (g) Public Works and Engineering are separate departments beginning in fiscal year 2016.



2012	2013	(c)	2014	2015	2016	2017
\$34,029	\$20,469		\$27,607	\$24,927	\$27,068	\$30,262
18,758	20,196		19,014	18,779	23,924	25,392
7,068	7,933		9,336	10,917	11,757	11,858
491	516		672	664	822	803
3,218	3,270		3,453	3,659	3,841	3,871
35	37		31	29	29	34
1,093	260		844	379	913	118
	46					7,324
67	103		200	333	287	118
3,304	3,045		3,402	1,627	2,625	2,923
68,882 (b)			49,799			
136,945	55,875		114,358	61,314	71,266	82,703
390	94		690	383	695	(65)
(3,304)	(3,045)		(3,402)	(1,627)	(2,625)	(2,923)
(2,914)	(2,951)		(2,712)	(1,244)	(1,930)	(2,988)
\$134,031	\$52,924		\$111,646	\$60,070	\$69,336	\$79,715
\$74,331	\$6,696		\$66,048	\$12,076	\$43,549	\$36,397
5,196	4,955		4,477	6,412	3,294	14,524
\$79,527	\$11,651		\$70,525	\$18,488	\$46,843	\$50,921



**CITY OF MILPITAS**  
**FUND BALANCES, GOVERNMENTAL FUNDS**  
**LAST TEN FISCAL YEARS**  
(modified accrual basis of accounting)  
(Dollars in Thousands)



	Fiscal Year Ended June 30,									
	2008	2009	2010 (b)	2011 (b)	2012	2013	2014	2015	2016	2017
<b>General Fund</b>										
Reserved	\$21,749	\$21,542								
Unreserved	29,359	29,293								
Nonspendable			\$20,977	\$20,970	\$577	\$468	\$23,279	\$23,265	\$23,387	\$20,209
Restricted				24,555						
Committed			5,433	5,433	5,433	5,433	5,433	5,433	8,440	19,026
Assigned			9,465	9,698	13,904	10,434	6,658	7,013	9,052	8,067
Unassigned			14,920	15,448	15,800	16,444	13,521	13,864	13,410	25,440
<b>Total General Fund</b>	<b>\$51,108</b>	<b>\$50,835</b>	<b>\$50,795</b>	<b>\$76,104</b>	<b>\$35,714</b>	<b>\$32,779</b>	<b>\$48,891</b>	<b>\$49,575</b>	<b>\$54,289</b>	<b>\$72,742</b> (a)
<b>All Other Governmental Funds</b>										
Reserved	\$41,416	\$50,608								
Unreserved, reported in:										
Special revenue funds	4,213	4,603								
Capital project funds	69,028	53,845								
Debt service funds										
Nonspendable			\$115	\$23	\$9,788	\$11	\$32	\$11	\$13	\$15
Restricted			96,873	104,290	80,112	89,821	62,661	92,347	99,701	109,416
Assigned			2,196	2,127	2,892	14,244	11,808	20,806	29,956	29,635
Unassigned			(10,219)	(43,624)	(12,234)	(12,955)	(6,610)	(5,932)		
<b>Total all other governmental funds</b>	<b>\$114,657</b>	<b>\$109,056</b>	<b>\$88,965</b>	<b>\$62,816</b>	<b>\$80,558</b>	<b>\$91,121</b>	<b>\$67,891</b>	<b>\$107,232</b>	<b>\$129,670</b>	<b>\$139,066</b> (a)

(a) The change in total fund balance for the General Fund and other governmental funds is explained in Management's Discussion and Analysis.

(b) The City implemented the provisions of GASB Statement 54 in fiscal year 2011, and years prior to 2010 have not been restated to conform with the new presentation.

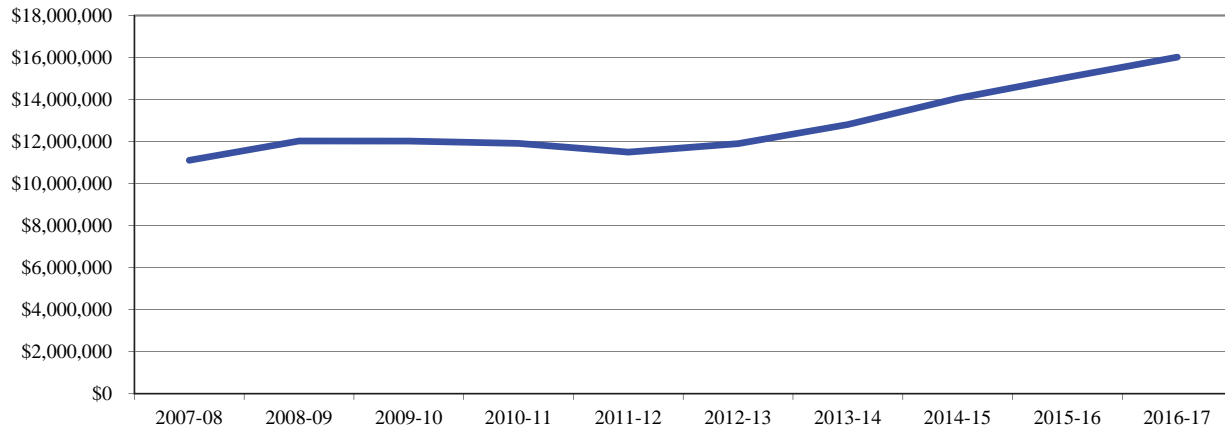
**CITY OF MILPITAS**  
**CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS**  
**LAST TEN FISCAL YEARS**  
(modified accrual basis of accounting)  
(Dollars in Thousands)

	Fiscal Year Ended June 30,				
	2008	2009	2010	2011	2012
<b>Revenues</b>					
Property taxes	\$49,060	\$53,917	\$58,012 (a)	\$55,655 (a)	\$34,029 (b)
Less: Educational Revenue					
Augmentation Fund payment					
Sales taxes	16,173	16,251	15,268	16,994	19,403
Other taxes	11,636	9,937	9,495	10,917	12,230
Licenses and fines	5,991	4,619	3,481	4,309	4,956
Use of money and property	11,096	8,984	7,168	3,948	5,303
Intergovernmental	4,092	6,004	6,362	5,082	4,834
Charges for services	4,612	4,146	3,704	4,020	4,725
Developer contributions	2,884	2,558	4,739	3,360	7,549
Other	584	816	933	1,039	578
Total Revenues	106,128	107,232	109,162	105,324	93,607
<b>Expenditures</b>					
Current:					
General Government	15,079	17,834	20,602 (a)	19,003 (a)	12,753 (b)
Building and Safety	2,566	2,420	1,992	1,975	2,060
Human Resources and Recreation					
Recreation	6,513	6,416	6,052	5,688	5,261
Public Works	11,016	10,066	13,619	7,960	8,772
Engineering					
Planning and Neighborhood Services	2,528	2,576	2,180	2,267	2,196
Police	21,701	21,602	22,071	21,682	21,733
Fire	14,664	15,279	14,249	14,994	14,562
Supplemental educational revenue					
augmentation fund payment			11,774	2,424	
Capital outlay	33,133	21,585	16,938	12,940	28,876
Debt service:					
Principal	8,490	8,481	8,169	8,225	13,153
Interest and fees	11,528	11,516	11,982	12,386	6,823
Total Expenditures	127,218	117,775	129,628	109,544	116,189
Excess (deficiency) of revenues over					
(under) expenditures	(21,090)	(10,543)	(20,466)	(4,220)	(22,582)
<b>Other Financing Sources (Uses)</b>					
Proceeds from debt issuance					21,780
Payments to refunded debt escrow agent					
Proceeds/gain from sale of properties	1,868	14	4	5	8
Loss from sale of property					
Transfers in	20,420	23,278	23,590	119,213	34,994
Transfers (out)	(16,869)	(18,624)	(23,259)	(115,839)	(31,690)
Total other financing sources (uses)	5,419	4,668	335	3,379	25,092
<b>Extraordinary Items</b>					
Assets transferred to Housing Successor					17,274 (b)
Assets transferred to/liabilities assumed					
by Successor Agency/Housing Successor					(42,431) (b)
<b>Special Item</b>					
Assets transferred to/from Successor Agency and County					
<b>Net Change in fund balances</b>	<u>(\$15,671)</u>	<u>(\$5,875)</u>	<u>(\$20,131)</u>	<u>(\$841)</u>	<u>(\$22,647)</u>
Debt service as a percentage of					
noncapital expenditures	21.3%	20.8%	17.9%	18.5%	22.9%

- (a) In 2011, the Redevelopment Agency began reporting tax increment gross of pass-through payments and administrative fees withheld by the County.
- (b) Years prior to 2010 have not been restated to reflect this change in presentation.
- (c) Beginning in fiscal year 2013, parks maintenance division is part of the public works department and the recreation division is part of human resources department.  
However starting in fiscal year 2016, the recreation was separated out from Human Resources as an individual department
- (d) Under the terms of a settlement agreement with the County Auditor - Controller, Successor Agency to the Milpitas Redevelopment Agency and other parties, the City and Economic Development Corporation transferred cash and certain capital assets to the Successor Agency and received certain capital assets from the Successor Agency.
- (e) Human Resources is a component of General Government and Recreation is a separate department beginning in fiscal year 2016.

Fiscal Year Ended June 30				
2013	2014	2015	2016	2017
\$20,466	\$27,608	\$24,927	\$27,068	\$30,261
20,908	19,766	19,572	24,719	26,214
13,343	14,992	17,505	18,737	19,349
5,875	8,193	6,971	8,051	10,497
1,538	2,964	2,032	3,037	2,180
5,842	5,216	5,482	6,104	4,696
5,550	5,735	6,449	7,196	7,238
7,987	13,975	11,614	29,410	25,637
715	1,144	205	113	310
82,224	99,593	94,757	124,435	126,382
11,871	13,204	12,814	13,771	17,089
2,278	2,658	2,706	2,885	3,148
3,087 (c)	3,124	3,329	(e)	(e)
(c)	(c)	(c)	3,383 (e)	3,876 (e)
9,124	8,535	9,199	6,020	6,839
			3,257	3,527
2,030	2,202	2,570	2,805	2,978
20,978	22,165	24,193	26,124	27,247
15,420	14,587	15,605	17,470	18,456
7,510	10,035	14,376	24,811	26,151
4,209	3,828	6,000		
668	223	61	54	48
77,175	80,561	90,853	100,580	109,359
5,049	19,032	3,904	23,855	17,023
46	6	4	160	7,324
(512)				
13,780	7,499	25,558	23,001	18,405
(10,735)	(4,098)	(19,305)	(19,864)	(14,903)
2,579	3,407	6,257	3,297	10,826
	(27,261) (d)			
\$7,628	\$22,439	\$10,161	\$27,152	\$27,849
7.0%	5.7%	7.5%	0.1%	0.1%

**CITY OF MILPITAS**  
**ASSESSED VALUE AND ACTUAL VALUE OF TAXABLE PROPERTY**  
**LAST TEN FISCAL YEARS**  
(Dollars in Thousands)



Fiscal Year	Real Property				Unsecured	Less: Tax-Exempt Property	Total Taxable Assessed Value (a)	Total Direct Tax Rate (b)
	Residential Property	Commercial Property	Industrial Property	Other				
2007-08	\$5,974,338	\$1,208,674	\$2,423,285	\$320,499	\$1,329,060	(\$146,495)	\$11,109,361	1%
2008-09	6,345,176	1,350,579	2,806,181	307,980	1,437,414	(220,624)	12,026,706	1%
2009-10	6,199,167	1,368,086	2,904,523	352,408	1,446,827	(245,778)	12,025,233	1%
2010-11	6,169,631	1,347,861	2,772,798	346,493	1,557,639	(282,326)	11,912,096	1%
2011-12	6,237,714	1,325,735	2,474,543	327,933	1,415,065	(282,633)	11,498,357	1%
2012-13	6,291,949	1,348,591	2,507,227	355,453	1,706,657	(309,165)	11,900,712	1%
2013-14	6,793,845	1,388,236	2,622,328	405,531	1,764,760	(161,341)	12,813,359	1%
2014-15	7,728,283	1,427,474	2,628,858	464,106	1,887,428	(75,363)	14,060,786	1%
2015-16	8,629,667	1,445,665	2,788,984	583,379	1,844,591	(233,528)	15,058,758	1%
2016-17	9,386,926	1,493,922	3,248,012	606,042	1,529,223	(245,315)	16,018,810	1%

Source: Hdl Coren & Cone, Santa Clara County Assessor Combined Tax Rolls

Notes:

- (a) The State Constitution requires property to be assessed at one hundred percent of the most recent purchase price, plus an increment of no more than two percent annually, plus any local over-rides. These values are considered to be full market values.
- (b) California cities do not set their own direct tax rate. The state constitution establishes the rate at 1% and allocates a portion of that amount, by an annual calculation, to all the taxing entities within a tax rate area.

CITY OF MILPITAS  
DIRECT AND OVERLAPPING PROPERTY TAX RATES  
LAST TEN FISCAL YEARS  
(Rate per \$100 of assessed value)

Fiscal Year	City Direct Rates		Overlapping Rates (a)		
	Basic Rate (b)	Total Direct	County of Santa Clara	School Districts	Special Districts
2007-08	\$1.00	\$1.00	\$0.0412	\$0.0874	\$0.0071
2008-09	1.00	1.00	0.0412	0.0874	0.0061
2009-10	1.00	1.00	0.0412	0.1238	0.0074
2010-11	1.00	1.00	0.0412	0.1389	0.0072
2011-12	1.00	1.00	0.0412	0.1490	0.0064
2012-13	1.00	1.00	0.0412	0.1140	0.0069
2013-14	1.00	1.00	0.0412	0.0961	0.0070
2014-15	1.00	1.00	0.0412	0.0750	0.0065
2015-16	1.00	1.00	0.0412	0.0817	0.0057
2016-17	1.00	1.00	0.0412	0.0734	0.0086

Source: County of Santa Clara, Tax Rates & Information

Notes:

- (a) Overlapping rates are those of local and county governments that apply to property owners within the City of Milpitas. Not all overlapping rates apply to all Milpitas property owners. These are voter approved levies in addition to the 1% State levy.
- (b) The City's basic property tax rate can only be increased by a 2/3 vote of the City's residents.

CITY OF MILPITAS  
PRINCIPAL PROPERTY TAX PAYERS  
FISCAL YEARS 2016-17 and 2007-08

Taxpayer	2016-2017			2007-2008		
	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
Cisco Systems Inc.	\$904,067,145	1	5.64%	\$323,205,166	1	2.91%
KLA Tencor Corporation	383,520,929	2	2.39%	147,205,339	4	1.33%
Santa Clara Valley Transportation	312,617,372	3	1.95%			
Sandbox Expansion LLC	206,785,818	4	1.29%			
McCarthy Center Holdings LLC	172,762,983	5	1.08%			
Essex Portfolio LP	152,172,338	6	0.95%			
Hudson Campus Center LLC	126,015,986	7	0.79%			
Linear Technology Corporation	123,316,940	8	0.77%	94,075,486	9	0.85%
Regency Tasman Holdings LLC	117,540,562	9	0.73%			
Headway Technologies Inc.	110,237,089	10	0.69%	121,664,876	5	1.10%
Milpitas Mills LP				292,934,378	2	2.64%
Magic Technology Inc				91,395,061	10	0.82%
Seagate Technology				94,411,512	8	0.85%
Silicon Valley California, Inc.				197,676,000	3	1.78%
Trinet Milpitas Associates				97,461,511	6	0.88%
Wells Fargo Capital Holdings, Inc.				97,166,829	7	0.87%
Subtotal	<u>\$2,609,037,162</u>		<u>16.29%</u>	<u>\$1,557,196,158</u>		<u>14.02%</u>
Fiscal Year 2016-2017 Total Net Assessed Valuation			\$16,018,810,000			
Fiscal Year 2007-2008 Total Net Assessed Valuation			\$11,109,361,000			

Source: Hdl, Coren & Cone, Santa Clara County Assessor 2016/17 Combined Tax Rolls



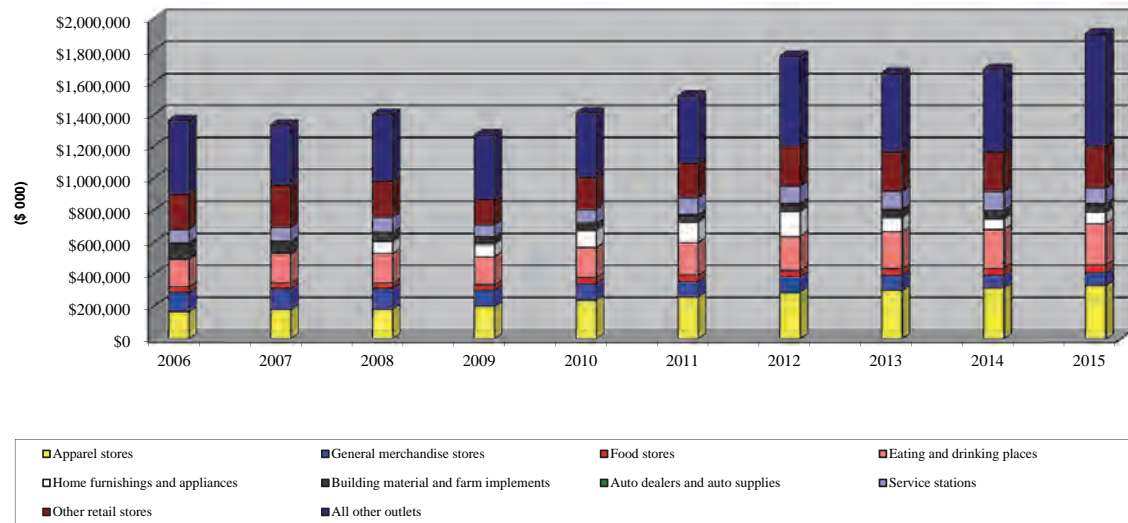
**CITY OF MILPITAS**  
**PROPERTY TAX LEVIES AND COLLECTIONS**  
**LAST TEN FISCAL YEARS**  
(Dollars in thousands)

<u>Fiscal Year</u>	<u>Taxes Levied (a)</u>	<u>Current Collections (a)</u>	<u>Percent of Levy Collected</u>	<u>Delinquent Tax Collections</u>	<u>Total Taxes Collected (a)</u>	<u>Percent of Levy</u>
2007-08	\$49,060	\$49,060	100.00%	\$0	\$49,060	100.00%
2008-09	53,917	53,917	100.00%	0	53,917	100.00%
2009-10 (b)	58,012	58,012	100.00%	0	58,012	100.00%
2010-11 (b)	55,655	55,655	100.00%	0	55,655	100.00%
2011-12 (c)	34,029	34,029	100.00%	0	34,029	100.00%
2012-13 (c)	20,469	20,469	100.00%	0	20,469	100.00%
2013-14	27,608	27,608	100.00%	0	27,608	100.00%
2014-15	24,927	24,927	100.00%	0	24,927	100.00%
2015-16	27,068	27,068	100.00%	0	27,068	100.00%
2016-17	30,262	30,262	100.00%	0	30,262	100.00%

- (a) The City elected to participate in the "Teeter" plan offered by the County whereby cities receive 100% of the taxes levied in exchange for foregoing any interest and penalties collected on delinquent taxes.
- (b) In 2011, the Redevelopment Agency began reporting tax increment gross of pass-through payments and administrative fees withheld by the County. Years prior to 2010 have not been restated to reflect this change in presentation.
- (c) The Redevelopment Agency was dissolved effective January 31, 2012 and collections of property tax increment ceased as of that date. Subsequent to that date, a Successor Agency collects property taxes of the former Redevelopment Agency.

Source: City of Milpitas Comprehensive Financial Annual Report

CITY OF MILPITAS  
TAXABLE SALES BY CATEGORY  
LAST TEN CALENDAR YEARS  
(Dollars in Thousands)



	CALENDAR YEARS									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Apparel stores	\$168,985	\$181,878	\$185,023	\$200,140	\$241,992	\$261,414	\$291,268	\$302,168	\$317,680	\$331,402
General merchandise stores	118,348	131,594	130,193	101,561	100,790	94,828	92,652	91,224	75,862	78,572
Food stores	34,979	34,362	31,105	34,453	38,004	39,344	40,725	43,238	46,833	49,565
Eating and drinking places	173,424	181,668	183,049	174,016	187,002	203,411	214,065	227,952	240,470	261,459
Home furnishings and appliances	(a)	(a)	77,669	80,746	108,491	130,572	155,616	91,325	66,160	68,671
Building material and farm implements	91,571	79,360	57,594	44,818	45,501	48,131	51,128	54,486	55,746	54,157
Auto dealers and auto supplies	12,221	(a)	(a)	(a)	(a)	(a)	(a)	(a)	(a)	(a)
Service stations	82,868	85,468	93,324	73,280	83,100	102,231	108,073	109,326	114,791	96,147
Other retail stores	220,862	266,915	225,954	158,982	204,074	215,350	250,826	246,769	253,155	262,292
All other outlets	460,265	373,394	417,099	402,516	401,569	420,024	558,935	491,929	511,564	700,857
<b>Total</b>	<b>\$1,363,523</b>	<b>\$1,334,639</b>	<b>\$1,401,010</b>	<b>\$1,270,512</b>	<b>\$1,410,523</b>	<b>\$1,515,305</b>	<b>\$1,763,288</b>	<b>\$1,658,417</b>	<b>\$1,682,261</b>	<b>\$1,903,122</b>
City Direct sales tax rate	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

(a) Sales omitted because their publication would result in the disclosure of confidential information.  
The numbers are included with "Other retail stores".

Data for calendar year 2016 is not available.

Source: California State Board of Equalization

**CITY OF MILPITAS  
DIRECT AND OVERLAPPING SALES TAX RATES  
LAST TEN FISCAL YEARS**

<u>Fiscal Year</u>	<u>City Direct Rate</u>	<u>Santa Clara County</u>	<u>State of California</u>	
2007-08	1.00	1.00	6.25	
2008-09	1.00	1.00	7.25	(a)
2009-10	1.00	1.00	7.25	
2010-11	1.00	1.00	7.25	
2011-12	1.00	1.00	6.25	(b)
2012-13	1.00	1.25	6.50	(c) (d)
2013-14	1.00	1.25	6.50	
2014-15	1.00	1.25	6.50	
2015-16	1.00	1.25	6.50	
2016-17	1.00	1.75	6.25	(e)

Source: California State Board of Equalization

(a) April 1, 2009 the State increased the State Rate 1%

(b) July 1, 2011 the State decreased the State Rate 1%

(c) April 1, 2013 the County increased the rate 0.25%

(d) On both July 1, 2012 and April 1, 2013 the State increased the State Rate 0.125%

(e) On April 1, 2017, the County increased the rate 0.50% and on January 1, 2017 the State decreased the rate 0.25%.

Note: The City's sales tax rate may be changed only with approval of the State Legislature.

CITY OF MILPITAS  
 PRINCIPAL SALES TAX PAYERS  
 CALENDAR YEARS 2016 and 2006  
 IN ALPHABETICAL ORDER

2016	2006
Acme Construction Supply Co.	Best Buy Stores
Best Buy Stores	Burlington Coat Factory
Burlington Coat Factory	Chevron Service Stations
Chevron Service Stations	Chili's Grill & Bar
Cisco System Inc.	Contract Office Group
Coach Stores	Credence System Corp.
Consolidated Electrical Distributors	Dave & Buster's
Dave & Busters	Force 10 Networks
Eplus Technology	Hanson Concrete Products
Fire Eye	Headway Technologies
Flextronics	Home Depot
Home Depot	KLA Tencor Corporation
Hoya	Magic Technologies
Independent Electric Supply	Marshall's Stores
KLA Tencor Corporation	Maxtor Corporation
Kohl's Department Stores	McDonald's Restaurants
Linear Technology	Mervyn's Department Store
Marshall's Stores	Milpitas Materials Company
Michael Kors Stores	Nike Factory Store
Milpitas Materials Company	One Workplace L. Ferrari
Nike Factory Store	Orchard Supply Hardware
Piercey Toyota & Scion	Rackable Systems
Shell Service Stations	Saks Fifth Avenue
South Bay Honda	Sportmart
Wal-Mart Stores	WalMart Stores

Source: MBIA MuniServices Company

CITY OF MILPITAS  
RATIOS OF OUTSTANDING DEBT BY TYPE  
LAST TEN FISCAL YEARS  
(Dollars in thousands, except per capita)

Fiscal Year	Governmental Activities					Business-type Activities	Total Primary Government	Percentage of Personal Income (a)	Per Capita (a)
	Certificates of Participation	Tax Allocation Bonds	Installment Purchase Agreement	Purchase Agreement	Capital Lease	Certificates of Participation			
2007-08	\$1,230	\$183,175	\$43,388	\$0	\$0	\$9,160	\$236,953	0.01%	\$3,580
2008-09	0	179,215	40,097	0	0	8,815	228,127	0.01%	3,301
2009-10	0	174,180	36,963	0	0	8,460	219,603	0.01%	3,101
2010-11	0	168,940	33,978	0	0	8,090	211,008	0.01%	2,949
2011-12	0	0 (b)	0 (b)	14,037	0	7,710	21,747	0.00%	325
2012-13	0	0	0	9,828	360	7,315	17,503	0.00%	258
2013-14	0	0	0	6,000	274	6,910	13,184	0.00%	188
2014-15	0	0	0	0	186	6,490	6,676	0.00%	96
2015-16	0	0	0	0	94	6,055	6,149	0.00%	81
2016-17	0	0	0	0	0	5,605	5,605	(c)	74

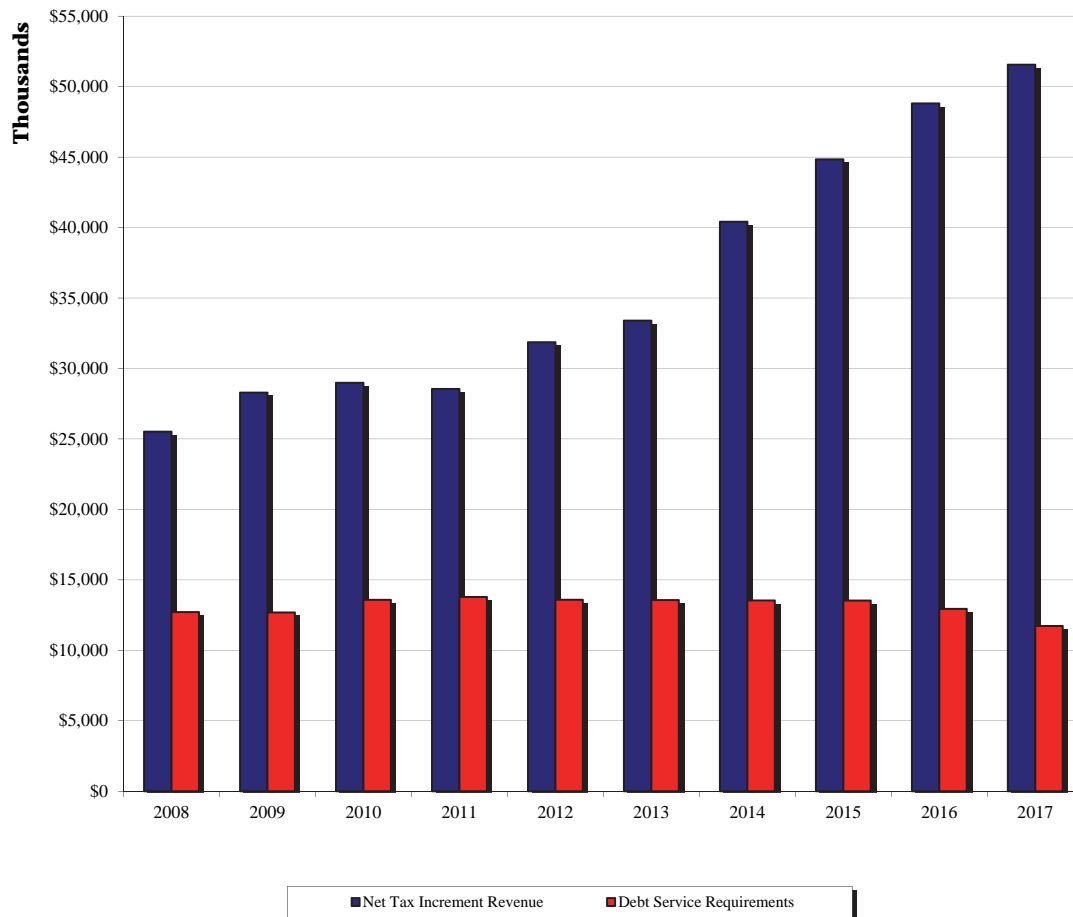
Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

(a) See Schedule 18 for personal income and population data.

(b) The Redevelopment Agency was dissolved as of January 31, 2012 and its debt was assumed by a Successor Agency.

(c) Data for fiscal year 2016-17 not available until May of 2018.

CITY OF MILPITAS  
BONDED DEBT PLEDGED REVENUE COVERAGE  
REDEVELOPMENT AGENCY TAX ALLOCATION BONDS  
LAST TEN FISCAL YEARS



Fiscal Year Ended June 30	Redevelopment Agency Property Tax Increments (a)	Less Housing Reserve Fund	Net Tax Increment Revenue	Debt Service Requirements			Coverage
				Principal	Interest	Total	
2008	\$32,259,656	\$6,740,250	\$25,519,406	\$3,855,000	\$8,860,665	\$12,715,665	2.01
2009	36,167,427	7,876,041	28,291,386	3,960,000	8,728,458	12,688,458	2.23
2010	37,162,281	8,175,650	28,986,631	5,035,000	8,548,558	13,583,558	2.13
2011	36,353,737	7,800,736	28,553,001	5,240,000	8,548,559	13,788,559	2.07
2012	31,866,464 (b) (d)	0 (b)	31,866,464	5,410,000 (c)	8,182,883 (c)	13,592,883	2.34
2013	33,401,413 (d)	0 (b)	33,401,413	5,595,000 (d)	7,973,533 (d)	13,568,533	2.46
2014	40,418,284 (d)	0 (b)	40,418,284	5,825,000 (d)	7,713,234 (d)	13,538,234	2.99
2015	44,843,881 (d)	0 (b)	44,843,881	6,120,000 (d)	7,414,608 (d)	13,534,608	3.31
2016	48,810,216 (d)	0 (b)	48,810,216	7,375,000 (d)	5,567,028 (d)	12,942,028	3.77
2017	51,563,292 (d)	0 (b)	51,563,292	6,045,000 (d)	5,682,175 (d)	11,727,175	4.40

- (a) Tax increments are net of pass-through payments and administrative fees withheld by the County prior to distribution to the Agency.
- (b) The Redevelopment Agency was dissolved as of January 31, 2012 and its debt was assumed by a Successor Agency. The Successor Agency collects Property Taxes, with no distinction between housing and non-housing revenues, which are used for the repayment of the former Redevelopment Agency's Bonds.
- (c) Includes debt service paid by the Redevelopment Agency prior to the dissolution and by the Successor Agency after the dissolution.
- (d) Tax increment reported in this table after the dissolution date is the amount calculated by the County Auditor-Controller as available for payment of enforceable obligations. Under the provisions of the laws dissolving the Redevelopment Agency, the Successor Agency only receives the funds necessary to fulfill its approved obligations. Debt service reported was paid by the Successor Agency.

**CITY OF MILPITAS  
COMPUTATION OF DIRECT AND OVERLAPPING DEBT  
JUNE 30, 2017**

JURISDICTION	PERCENTAGE APPLICABLE TO CITY OF MILPITAS (1)	AMOUNT APPLICABLE TO CITY OF MILPITAS
2016-17 Assessed Valuation, Direct and Overlapping Debt		<u>\$16,018,809,160</u>
<b><u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u></b>		
Santa Clara County	3.824%	\$30,012,473
San Jose- Evergreen Community College District	12.076%	53,311,432
Milpitas Unified School District	99.042%	104,424,933
East Side Union High School District	0.310%	2,663,820
Berryessa Union School District	2.034%	1,896,563
Santa Clara Valley Water District Benefits Assessment District	3.824%	3,477,737
City of Milpitas 1915 Act Bonds	100%	<u>3,145,000</u>
<b>TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT</b>		<u><b>198,931,958</b></u>
<b><u>DIRECT AND OVERLAPPING GENERAL FUND DEBT</u></b>		
Santa Clara County General Fund Obligations	3.824%	24,401,346
Santa Clara County Pension Obligations	3.824%	13,860,889
Santa Clara County Board of Education Certificates of Participation	3.824%	217,586
San Jose- Evergreen Community College District OPEB Bonds	12.076%	5,730,062
East Side Union High School District OPEB Bonds	0.310%	91,264
Berryessa Union School District Certificates of Participation	2.034%	107,789
<b>City of Milpitas</b>	<b>100%</b>	<b>0</b>
Santa Clara County Vector District Certifications of Participations	3.824%	<u>102,674</u>
<b>TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT</b>		<u><b>44,511,610</b></u>
Less: Santa Clara County supported obligations		<u>(16,680,616)</u>
<b>TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT</b>		<u><b>\$27,830,994</b></u>
<b><u>OVERLAPPING TAX INCREMENT DEBT (Successor Agency)</u></b>	<b>100%</b>	<u><b>\$114,370,000</b></u>
<b>TOTAL DIRECT DEBT</b>		<u><b>\$0</b></u>
<b>TOTAL GROSS OVERLAPPING DEBT</b>		<u><b>\$357,813,568</b></u>
<b>TOTAL NET OVERLAPPING DEBT</b>		<u><b>\$341,132,952</b></u>
<b>GROSS COMBINED TOTAL DEBT</b>		<u><b>\$357,813,568</b></u> (2)
<b>NET COMBINED TOTAL DEBT</b>		<u><b>\$341,132,952</b></u>

- (1) The percentage of overlapping debt applicable to the city is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the city divided by the district's total taxable assessed value.
- (2) Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2016-17 Assessed Valuation:  
Total Overlapping Tax and Assessment Debt 1.24%

Ratios to Assessed Valuation:  
Direct Debt % 0.00%  
Total Gross Debt % 2.23%

Source: California Municipal Statistics, Inc.

CITY OF MILPITAS  
LEGAL DEBT MARGIN INFORMATION  
LAST TEN FISCAL YEARS  
(Dollars in Thousands)

Legal Debt Margin Calculation for Fiscal Year 2016-17

Assessed value (net) - June 30, 2017	<u><u>\$16,018,810</u></u>
Debt limit: 3.75% of assessed value (a)	\$600,705
Debt applicable to limit	
Total Bonded Debt	\$0
Less: Tax Allocation Bonds not subject to limit	0
Amount of Debt subject to limit	<u>0</u>
Legal debt margin	<u><u>\$600,705</u></u>

Fiscal Year	Debt Limit	Total Net Debt Applicable to Limit	Legal Debt Margin	Total Net Debt Applicable to the Limit as a percentage of Debt Limit
2007-08	\$416,601	\$0	\$416,601	0.0%
2008-09	451,001	0	451,001	0.0%
2009-10	450,946	0	450,946	0.0%
2010-11	446,703	0	446,703	0.0%
2011-12	431,188	0	431,188	0.0%
2012-13	446,277	0	446,277	0.0%
2013-14	480,501	0	480,501	0.0%
2014-15	527,280	0	527,280	0.0%
2015-16	564,703	0	564,703	0.0%
2016-17	600,705	0	600,705	0.0%

(a) California Government Code, Section 43605 sets the debt limit at 15%. The Code section was enacted prior to the change in being assessed value to full market value when it was previously 25% of market value. Thus, the limit shown as 3.75% is one-fourth the limit to account for the adjustment of showing assessed valuation at full cash value.

Source: City of Milpitas Finance Department  
Santa Clara County Tax Assessor's Office



CITY OF MILPITAS  
 INSTALLMENT PAYMENT COVERAGE  
 SEWER CERTIFICATES OF PARTICIPATION  
 LAST TEN FISCAL YEARS

Fiscal Year	Gross Revenues (1)	Less: Operating Expenses (2)	Net Available Revenue	Installment Payments			Coverage
				Principal	Interest	Total	
2007-08	\$11,508,195	\$6,208,050	\$5,300,145	\$375,000	\$353,893	\$728,893	7.27
2008-09	10,703,586	9,838,790	864,796	345,000	406,212	751,212	1.15
2009-10	10,896,264	6,196,015	4,700,249	355,000	331,793	686,793	6.84
2010-11	11,752,362	6,420,615	5,331,747	370,000	319,468	689,468	7.73
2011-12	12,757,123	5,405,936	7,351,187	380,000	304,267	684,267	10.74
2012-13	12,785,567	6,356,621	6,428,946	395,000	292,966	687,966	9.34
2013-14	13,235,908	7,834,220	5,401,688	405,000	278,965	683,965	7.90
2014-15	14,664,759	7,263,553	7,401,206	420,000	264,528	684,528	10.81
2015-16	16,408,718	7,687,848	8,720,870	435,000	249,348	684,348	12.74
2016-17	16,803,344	6,657,757	10,145,587	450,000	233,193	683,193	14.85

NOTE: The Certificates of Participation were issued on November 28, 2006.

- (1) Gross Revenues include sewer service charges, other operating revenues, and interest income.  
Gross Revenues exclude connection fees and capital contributions.
- (2) Operating Expenses include sewer treatment services, personnel services, services and supplies,  
and repairs and maintenance expenses.  
Operating Expenses exclude depreciation and amortization expenses.

CITY OF MILPITAS  
BIMONTHLY SEWER RATES BY CUSTOMER CLASS  
LAST TEN FISCAL YEARS

Fiscal Year	Residential			Commercial	
	Single Family Per Dwelling Unit	Multi-Family Per Dwelling Unit	Mobile Home Parks Per Dwelling Unit	Flat Rate	Quantity Charges (a)
2007-08	\$59.70	\$43.14	\$26.88	\$10.08	\$0.02 - 3.93
2008-09	59.70	43.14	26.88	10.08	0.02 - 3.93
2009-10	65.08	46.49	28.73	10.99	0.97 - 6.52
2010-11	70.94	50.68	31.18	11.98	0.72 - 7.61
2011-12	72.95	51.06	33.36	12.82	2.38 - 6.99
2012-13	75.92	51.06	33.36	13.72	2.38 - 6.99
2013-14	75.92	51.06	33.36	13.72	2.38 - 6.99
2014-15	86.93	52.22	38.20	14.68	2.73 - 8.00
2015-16	90.27	69.32	56.97	14.97	3.94 - 8.34
2016-17	90.27	69.32	56.97	14.97	3.94 - 8.34

Source: City of Milpitas, Engineering Department

(a) For each one hundred cubic feet of water used. Charge varies depending on the business or type of business.

CITY OF MILPITAS  
 DEMOGRAPHIC AND ECONOMIC STATISTICS  
 LAST TEN CALENDAR YEARS  
 (Personal Income in Thousands)

Calendar Year	Population	Population Density (Sq. Mile)	Total Personal Income	Per Capita Personal Income	School Enrollment	Unemployment Rate (%)	Land Area (Sq. Mile)
2007	66,191	4,846	\$2,495,465	\$37,701	9,590	4.80%	13.66
2008	69,115	5,060	2,634,504	38,118	9,649	6.20%	13.66
2009	70,812	5,184	2,606,712	36,812	9,802	11.30%	13.66
2010	71,552	5,238	2,067,137	28,890	9,887	11.50%	13.66
2011	66,966	4,902	2,052,307	30,647	9,949	10.00%	13.66
2012	67,894	4,970	2,143,889	31,577	10,033	6.70%	13.66
2013	70,092	5,131	2,234,603	31,881	10,156	5.50%	13.66
2014	69,903	5,117	2,287,366	32,722	10,281	4.90%	13.66
2015	75,521	5,529	2,374,221	31,437	10,291	3.90%	13.66
2016	75,410	5,520	2,528,663	33,532	10,260	3.50%	13.66

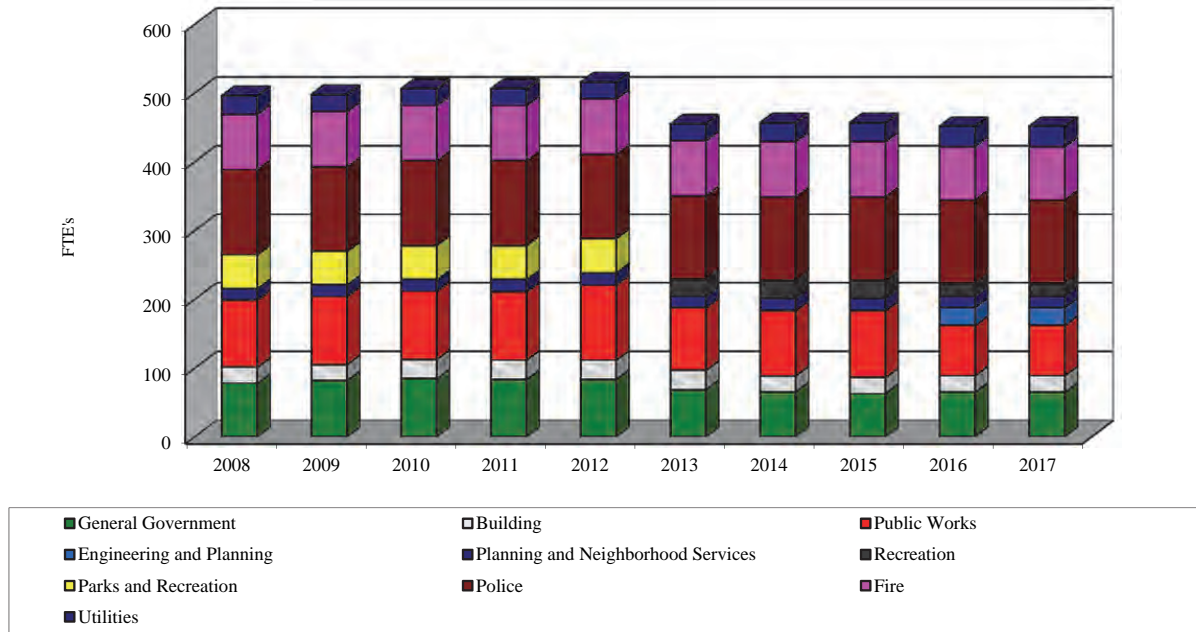
Sources: HdL, Coren & Cone  
 City of Milpitas Annual Budget

CITY OF MILPITAS  
PRINCIPAL EMPLOYERS  
FISCAL YEAR 2016-17 and 2007-2008

Employer	2016-17			2007-08		
	Number of Employees	Rank	Percentage of Total City Employment	Number of Employees	Rank	Percentage of Total City Employment
Cisco Systems, Inc.	3,647	1	8.94%	3,000	2	3.67%
KLA-Tencor Corporation	2,028	2	4.97%	1,000	7	1.22%
Flextronics International	2,000	3	4.90%	1,300	5	1.59%
San Disk Corporation	1,952	4	4.78%	1,100	6	1.35%
Linear Technology Corporation	1,288	5	3.16%	1,000	7	1.22%
Milpitas Unified School District	865	6	2.12%	871	9	1.07%
Headway Technologies	682	7	1.67%			
FireEye, Inc.	680	8	1.67%			
Wal-Mart	389	9	0.95%			
Kaiser Permanente	355	10	0.87%			
Great Mall				3,180	1	3.89%
Lifescan, Inc.				2,500	3	3.06%
LSI Logic Corporation				1,320	4	1.62%
JDS Uniphase Corporation				800	10	0.98%
Subtotal	<u>13,886</u>		<u>34.03%</u>	<u>16,071</u>		<u>19.68%</u>
Total Labor Force			40,800			81,646

Source: California Municipal Statistics, Inc.

**CITY OF MILPITAS**  
**AUTHORIZED FULL-TIME EQUIVALENT EMPLOYEES BY FUNCTION/PROGRAM**  
**LAST TEN FISCAL YEARS**



Function	Fiscal Year Ended June 30									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General Government	78.0	82.0	84.5	83.5	83.5	68.5	65.5	63.0	64.8	64.8
Building and Safety	23.0	23.0	28.0	28.0	28.0	28.0	23.0	23.0	24.0	24.0
Public Works	98.0	99.0	99.0	99.0	109.0	91.0	94.5	97.0	73.0	73.0
Engineering									26.0 (b)	26.0
Planning and Neighborhood Services	16.5	17.0	17.0	18.0	18.0	16.5	18.5	18.5	17.0 (b)	17.0
Recreation						25.5 (a)	25.5	25.5	18.0	18.0
Parks and Recreation	49.0	48.5	49.5	49.5	49.5	(a)	(a)	(a)		
Police:										
Sworn Police	94.0	94.5	94.5	94.5	94.0	91.5	92.0	92.0	92.0	93.0
Civilians	30.5	29.0	29.0	29.0	29.0	29.5	30.0	30.0	30.0	29.0
Fire:										
Officers	70.0	70.0	70.0	70.0	70.0	70.0	70.0	68.0	66.0	66.0
Civilians	10.0	10.0	10.0	10.0	10.0	10.0	10.0	12.0	11.0	11.0
Utilities	27.0	25.0	24.5	24.5	24.5	24.0	27.5	27.5	29.5	29.5
<b>Total</b>	<b>496.0</b>	<b>498.0</b>	<b>506.0</b>	<b>506.0</b>	<b>515.5</b>	<b>454.5</b>	<b>456.5</b>	<b>456.5</b>	<b>451.3</b>	<b>451.3</b>

(a) Beginning in fiscal year 2013, parks maintenance division is now under public works department and recreation division is part of human resources department, but it is reported separately here.

(b) Beginning in fiscal year 2016, Public Works and Engineering are separate departments.

Source: City of Milpitas, final budget

**CITY OF MILPITAS  
OPERATING INDICATORS BY FUNCTION/PROGRAM  
LAST TEN FISCAL YEARS**

Function/Program	Fiscal Year Ended June 30				
	2008	2009	2010	2011	2012
<b>Building and Safety</b>					
Building permits issued	3,500	3,500	2,700	2,800	2,800
Plan checked performed	1,000	1,000	800	800	800
<b>Public Works</b>					
Street miles maintained	139	139	139	139	139
Customer Service Requests	3,500	3,924	3,900	3,000	3,350
Development projects reviewed	150	100	118	225	200
<b>Planning and Neighborhood Services</b>					
Customer Service Requests/Violations abated	1,100	1,250	980	800	725
Applications to Planning Commission	150	112	84	45	96
<b>Parks and Recreation</b>					
Sports Center members	8,278	8,500	10,000	1,200	1,400
Senior nutrition meals served	21,165	23,228	24,056	23,076	23,304
Athletic Field maintenance (hours)	1,946	2,242	2,100	1,641	n/a
<b>Police</b>					
Avg response time to emergency calls (minutes)	3:06	2:46	2:47	2:49	2:42
Number of anti-terrorist patrol checks	3,500	3,500	1,469	1,469	1,693
Crime prevention presentations	240	275	266	281	235
Number of vehicle citations issued	12,386	11,558	11,391	8,544	6,901
DARE presentations: schools/students	14/1492	13/1440	12/850	11/845	12/770
<b>Fire</b>					
Emergency calls for service	4,368	4,300	4,400	4,400	4,075
Public education events	80	70	90	80	120
Permits Inspections	5,400	4,000	4,000	4,000	4,334
Plan Review	750	995	1,000	900	671
<b>Utility</b>					
Clean sewer lines (feet)	500,000	500,000	500,000	550,000	500,000
Repair, replace or set water meters	580	700	500	380	491
Average daily consumption (thousands of gallons)	9,693	8,870	9,200	8,100	8,200

Source: City of Milpitas, final budget

Fiscal Year Ended June 30				
2013	2014	2015	2016	2017
3,400	4,300	4,300	4,200	4,090
1,100	1,500	1,400	1,500	1,610
139	139	139	139	139
3,500	2,880	2,800	2,794	2,800
200	205	190	178	158
725	725	755	755	800
106	159	236	92	92
1,600	1,450	1,504	1,600	1,325
22,090	20,656	21,231	20,158	18,678
n/a	n/a	n/a	n/a	n/a
2:32	2:33	2:32	2:40	2:44
1,996	2,550	2,300	2,400	2,200
201	200	200	125	70
4,120	3,516	3,600	5,900	5,720
0	0	0	0	0
4,356	4,356	4,950	5,000	5,000
45	45	80	100	112
4,510	4,510	4,666	7,600	7,322
807	807	983	1,200	1,550
329,313	640,255	500,000	500,000	500,000
149	298	279	189	152
9,340	9,300	9,300	7,800	5,800

CITY OF MILPITAS  
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM  
LAST TEN FISCAL YEARS

Function/Program	Fiscal Year Ended June 30				
	2008	2009	2010	2011	2012
Function/Program					
Public Works					
Miles of streets	139	138	139	139	287
Street lights	4,435	4,460	4,496	4,496	4,500
Square feet of buildings maintained (in thousands)	350	350	350	427	376
City vehicles	630	617	622	622	247
Signs	8,000	8,131	8,363	8,363	8,534
Signal lights	68	71	71	71	72
City Parks	32	32	29	31	31
Acres of Parkland	172	179	179	178	179
Playgrounds	29	37	33	33	33
Parks and recreation					
Community centers	1	1	1	1	1
Senior centers	1	1	1	1	1
Sports centers	1	1	1	1	1
Satellite centers	0	0	0	0	0
Swimming pools	4	3	4	4	3
Tennis courts	22	24	20	17	20
Football field	1	1	1	1	1
Baseball/softball fields	21	21	15	15	12
Soccer fields	13	13	5	2	3
Basketball courts	5	6	5	5	4
Volleyball courts	7	7	5	4	5
Handball courts	4	4	4	4	4
Joint use:					
Russell Bobbysocks Fields	0	0	0	0	0
Soccer fields	0	0	0	0	0
Police					
Police stations	2	2	2	2	2
Police patrol vehicles	27	28	28	28	27
Fire					
Fire stations	4	4	4	4	4
Fire Apparatus	14	14	13	15	13
Fire hydrants	1,809	1,756	1,840	1,840	1,840
Utility					
Miles of water mains	206	204	213	213	213
Water Tank Storage capacity (million of gallons)	16	16	16	16	16
Miles of sanitary sewers	177	173	178	178	179
Miles of storm drain	107	106	110	110	110
Miles of recycled water main	11	11	3	3	4

Source: City of Milpitas, final budget



Fiscal Year Ended June 30				
2013	2014	2015	2016	2017
287	287	298	298	298
4,500	4,500	4,577	4,577	4,581
376	376	376	376	376
242	252	260	264	264
8,534	5,500	5,700	5,700	6,000
72	72	70	71	72
33	34	34	33	32
179	180	180	180	195
24	25	34	34	33
1	1	1	1	1
1	1	1	1	1
1	1	1	1	1
0	0	0	0	2
3	3	3	3	3
20	20	21	21	21
1	1	1	1	1
8	8	9	9	7
9	9	12	13	13
8	8	7	9	10
4	9	7	10	13
5	5	5	5	6
0	0	0	0	3
0	0	0	0	2
2	2	2	2	2
27	29	28	34	29
4	4	4	4	4
22	19	19	13	11
1,840	1,847	2,033	2,033	2,039
213	214	213	203	203
16	16	16	16	16
179	179	179	173	173
110	110	110	99	99
4	4	23	23	21



## **OTHER AUDIT REPORT**



**INDEPENDENT AUDITOR'S REPORT ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Members of the City Council  
City of Milpitas, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the City of Milpitas, California, as of and for the year ended June 30, 2017, and have issued our report thereon dated December 7, 2017. Our report includes a reference to other auditors who audited the financial statements of Terrace Gardens, Inc., as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control we consider to be significant deficiencies as listed on the Schedule of Significant Deficiencies included as part of our separately issued Memorandum on Internal Control dated December 7, 2017, which is an integral part of our audit and should be read in conjunction with this report.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*, except as noted in item 2017-01 in our separately issued Memorandum on Internal Control dated December 7, 2017, which is an integral part of our audit and should be read in conjunction with this report.

### ***City's Response to Findings***

The City's response to the findings identified in our audit is described in our separately issued Memorandum on Internal Control dated December 7, 2017, which is an integral part of our audit and should be read in conjunction with this report. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### ***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Mary & Associates". The signature is written in a cursive, flowing style.

Pleasant Hill, California  
December 7, 2017